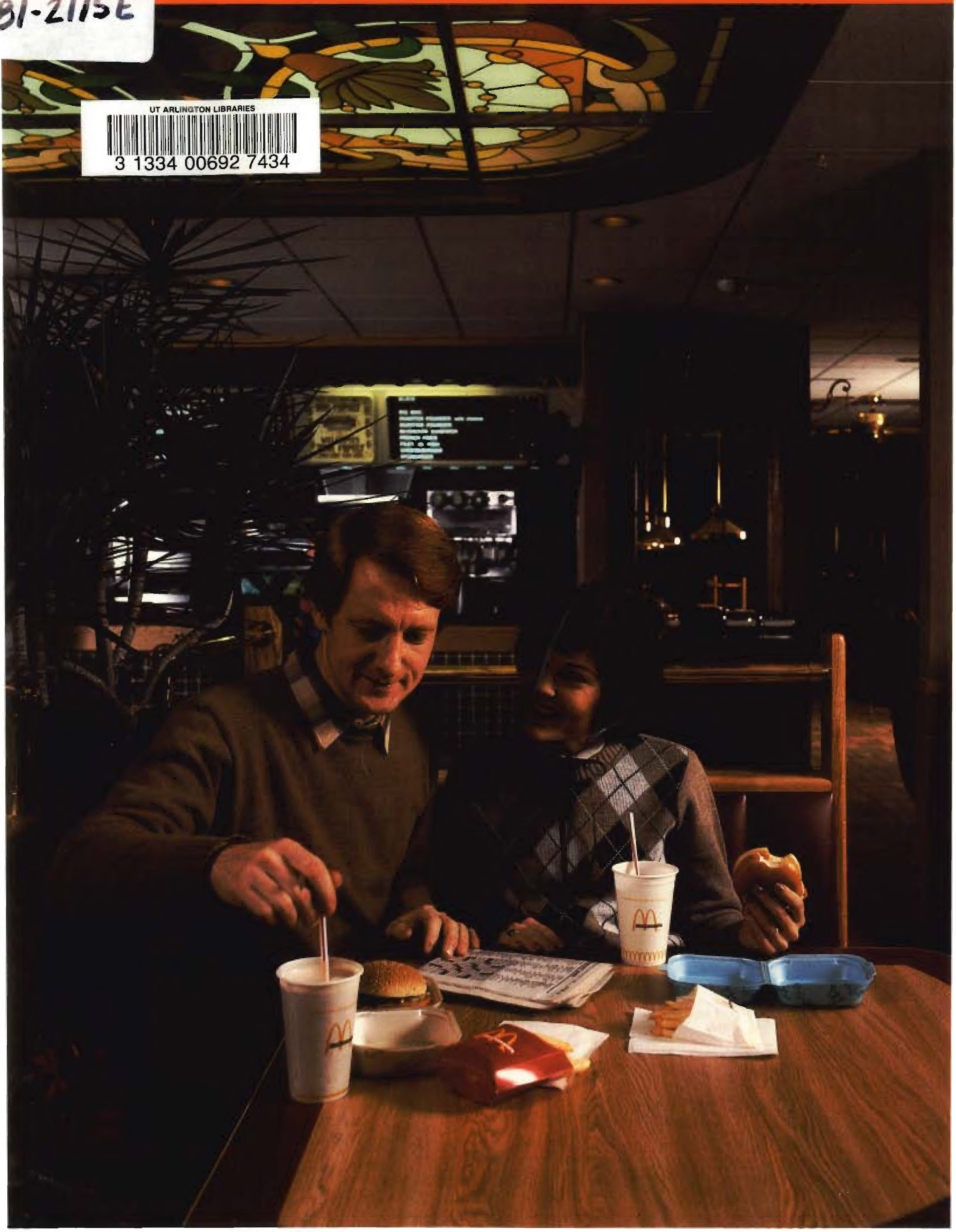
McDonald's Corporation

1981 Annual Report



Contents

On the cover

The McDonald's restaurant is a special kind of place that combines technology with Q.S.C. & V. (the McDonald's motto of Quality, Service, Cleanliness and Value) to create a unique eating-out experience for customers just like this couple—customers just like you.

About the Company

McDonald's Corporation is the largest foodservice organization in the world. The Company, its franchisees and affiliates operate more than 6,700 McDonald's restaurants, each serving a limited menu of high-quality, moderately priced food. The restaurants are located in all 50 of the United States, the District of Columbia, and internationally in 29 other countries and territories. In its 27-year history, the Company has pioneered foodservice technology, marketing techniques and operational systems that are now the standards of its industry.

The McDonald's motto of Q.S.C.&V. translates into *Quality* food products; efficient, friendly *Service;* and restaurants renowned for the *Cleanliness* and *Value* they provide.

Q.S.C.&V.... McDonald's promise to people around the world.

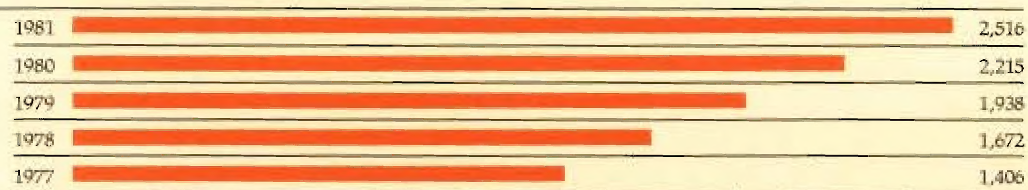
49A

McDonald's Corporation 1981 financial highlights

	1981	1980	Percent increase
Net income	$ 264,834,000	$ 220,893,000	20
Net income per share	$ 6.54	$ 5.49	19
Revenues	$2,515,836,000	$2,215,463,000	14
Systemwide sales	$7,129,000,000	$6,226,000,000	15
Funds generated from operations	$ 447,442,000	$ 377,172,000	19
Total assets	$2,899,322,000	$2,643,369,000	10
Total stockholders' equity	$1,370,667,000	$1,140,883,000	20
Return on average assets	20.7%	19.7%	
Return on average equity	21.1%	21.1%	

Net income
in millions of dollars

Revenues
in millions of dollars



Systemwide sales
in millions of dollars

Funds generated from operations
in millions of dollars

To our stockholders:

In 1981 McDonald's restaurants served more McDonald's products to more people in more locations than ever before. The result: 1981 systemwide sales (sales by all franchised, Company-owned and affiliated restaurants) reached and exceeded a new milestone of $7 billion, making 1981 another record year for McDonald's Corporation.

For the year ended December 31, 1981:

Net income was $264,834,000, an increase of 20 percent or $43,941,000 more than in 1980. Net income per share was $6.54, a 19 percent increase over 1980.

Systemwide sales totaled $7,128,602,000, a growth of 15 percent or $903,007,000 more than 1980 sales.

These sales resulted in revenues for the Company of $2,515,836,000, an increase of 14 percent or $300,373,000 above the 1980 total.

International sales totaled $1,358,886,000, a growth of 15 percent or $182,250,000 over 1980. Of all systemwide sales 19 percent came from international markets, restaurants located outside the United States.

Stockholders' equity reached $1,370,667,000, an increase of 20 percent or $229,784,000 more than the 1980 total. Because long-term debt decreased by $44,282,000, the long-term debt to equity ratio at year-end 1981 was .68, compared to .85 at year-end 1980.

Return on average equity for the recent year was 21.1 percent, while return on average assets was 20.7 percent.

Funds generated from operations reached $447,442,000, an increase of $70,270,000 or 19 percent over the 1980 total.

Finally, for the sixth consecutive year, the Company increased its dividend, paying $.95 per share, 28 percent more than in 1980. As a result, more than $38 million in dividends were paid in 1981.

Financial growth was only a part of McDonald's 1981 continued record of success. Among the Company's other noteworthy achievements for the year are:

☐ *476 restaurants were added to the system, bringing the worldwide total at year-end to 6,739, with 5,554 restaurants in the United States and the remainder in 29 international countries and territories.*

☐ *The first McDonald's restaurants in Spain, Denmark and the Philippines were opened.*

☐ *Six international markets—Australia, Germany, Guam, Holland, Japan and Panama—celebrated their 10th anniversaries as part of the McDonald's system.*

☐ *Standard & Poor's Corporation raised its rating on McDonald's senior debt bonds from A+ to AA.*

☐ *Of every $100 spent in eating and drinking places in the United States, $6.06 was spent at a McDonald's restaurant, compared to $5.85 in 1980 (based on data prepared by the United States Department of Commerce).*

☐ *398 McDonald's Playland facilities were built, bringing the systemwide total at year-end to 979.*

During the past 12 months, the Company's Board of Directors announced several executive appointments:

Jack M. Greenberg was named Executive Vice President and Chief Financial Officer of the Corporation and was elected to the Board of Directors. Mr. Greenberg formerly was a partner of Arthur Young & Company.

Donald P. Horwitz was named Executive Vice President—Law and also was elected to the Board of Directors. Mr. Horwitz continues as Secretary of the Corporation.

Named Senior Vice President was James R. Cantalupo. He will continue as Controller of the Corporation.

Shelby Yastrow, Vice President, was promoted to General Counsel.

Elected Regional Vice Presidents were Robert J. Doran and George M. Sensor. Michael L. Conley was appointed Assistant

Vice President.

For the past 27 years, the McDonald's restaurant has been a special place where millions of customers come for a top-quality, top-value meal—a meal that is quickly and courteously served in a clean environment.

This annual report tells the story of the McDonald's restaurant, from its beginning as a simple red-and-white tile building, through its evolution into a highly technical, efficient and consumer-oriented food preparation facility. The McDonald's restaurant which serves our customers today is the result of the efforts of many experienced McDonald's people: franchisees, restaurant employees, real estate and construction professionals, marketing professionals, engineers, architects, designers, home economists, restaurant operations experts and our customers. Their creativity and expertise have combined to build what is the most cost-efficient, work-efficient and energy-efficient McDonald's restaurant to date. The feature article begins on page 17.

The year 1981 was an excellent year for the Company. Systemwide sales, revenues and net income reached new highs. Funds generated from operations exceeded our capital expenditures for the first time, and the balance sheet further strengthened with stockholders' equity now 47% of total assets. Nor was 1981 an exception, for the operating results in each year have surpassed the accomplishments of the preceding year.

So that we can further share with you our views on McDonald's current status and our plans for the Company's future, we cordially invite you to join us at our Annual Meeting of Stockholders at 10 a.m. Thursday, May 13, 1982, in the Oakbrook Theatre, Oak Brook, Illinois.

Ray A. Kroc
Founder and
Senior Chairman of the Board

Fred L. Turner
Chairman of the Board and
Chief Executive Officer

Edward H. Schmitt
President and
Chief Administrative Officer

Richard J. Boylan
Senior Executive Vice President
and Chief Financial Officer

March 1, 1982

"When Dick Boylan joined McDonald's in 1958, there were only 74 restaurants in the system. During his 24 years of service with the Company, Dick has been responsible for several billion dollars of financing. Under his guidance total assets reached almost $3 billion at year-end 1981.

Richard J. Boylan

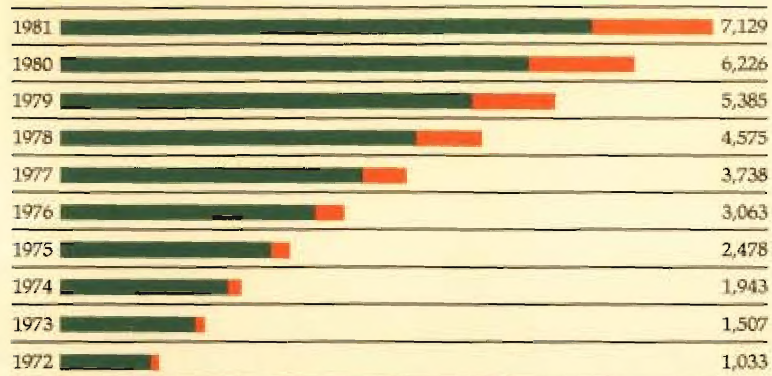
"Dick Boylan has guided our Company's financial affairs throughout our historic years, and his valuable contributions have helped McDonald's immeasurably. Dick recently announced his retirement from the Company. We wish him and his wife, Rose, well; and I am pleased to say that he has agreed to continue his association with us as a Director of the Corporation."

Fred L. Turner

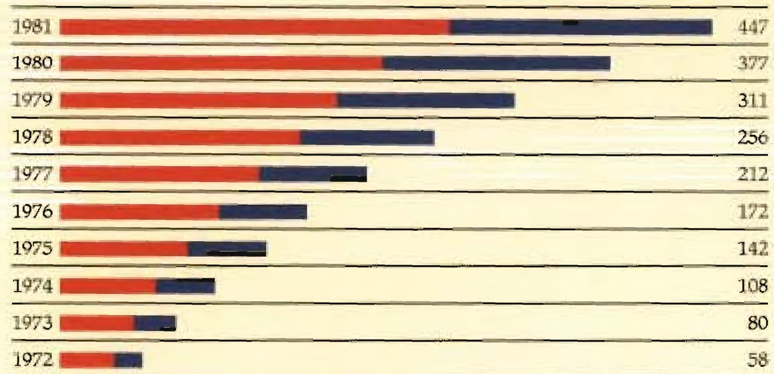
McDonald's Corporation and Subsidiaries Ten-year financial summary

		1981	1980	1979	1978	1977
Systemwide sales	United States	$5,770,000	5,049,000	4,448,000	3,848,000	3,241,000
	International	1,359,000	1,177,000	937,000	727,000	497,000
	Total systemwide sales	$7,129,000	6,226,000	5,385,000	4,575,000	3,738,000
Sales by Company-owned restaurants		$1,915,908	1,697,767	1,495,216	1,290,621	1,097,434
Revenues from franchised restaurants		$ 561,321	486,577	416,637	352,928	286,773
Total revenues		$2,515,836	2,215,463	1,937,935	1,671,891	1,406,148
Income before income taxes		$ 481,634	402,593	344,508	312,825	266,796
Net income		$ 264,834	220,893	188,608	162,669	136,696
Funds generated from operations		$ 447,442	377,172	311,203	255,988	212,165
Stockholders' equity		$1,370,667	1,140,883	952,166	796,337	643,113
Long-term debt		$ 925,508	969,790	966,123	782,781	687,931
Total assets		$2,899,322	2,643,369	2,354,006	1,953,489	1,645,155
Per common share	Net income	$ 6.54	5.49	4.68	4.00	3.37
	Dividends declared	$ .95	.74	.51	.32	.15
	Dividends paid	$ .95	.74	.51	.32	.175
	Stockholders' equity	$ 34.07	28.42	23.69	19.66	15.91
Number of restaurants at end of year	Operated by franchisees	4,580	4,302	3,927	3,573	3,184
	Operated by the Company	1,746	1,608	1,547	1,406	1,338
	Operated by affiliates	413	353	273	206	149
	Total restaurants	6,739	6,263	5,747	5,185	4,671

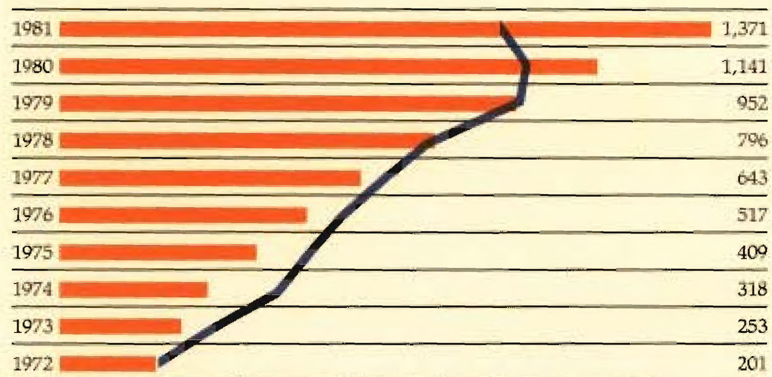
1976	1975	1974	1973	1972
(Figures in thousands, except per share amounts and number of restaurants)				
2,730,000	2,256,000	1,792,000	1,420,000	987,000
333,000	222,000	151,000	87,000	46,000
3,063,000	2,478,000	1,943,000	1,507,000	1,033,000
923,197	771,552	630,178	510,730	367,253
233,224	185,163	140,850	104,574	68,700
1,176,436	972,641	785,432	624,254	442,406
215,504	171,817	132,203	98,628	69,657
109,180	86,802	64,936	49,505	35,714
172,200	142,069	108,126	80,109	57,503
516,690	409,376	318,168	253,484	201,334
597,525	533,701	460,534	339,495	202,817
1,372,174	1,169,344	952,051	723,579	530,025
2.69	2.15	1.61	1.23	.90
.10				
.075				
12.75	10.12	7.96	6.37	5.11
2,841	2,495	2,157	1,776	1,465
1,217	1,123	1,009	896	785
120	88	66	45	22
4,178	3,706	3,232	2,717	2,272



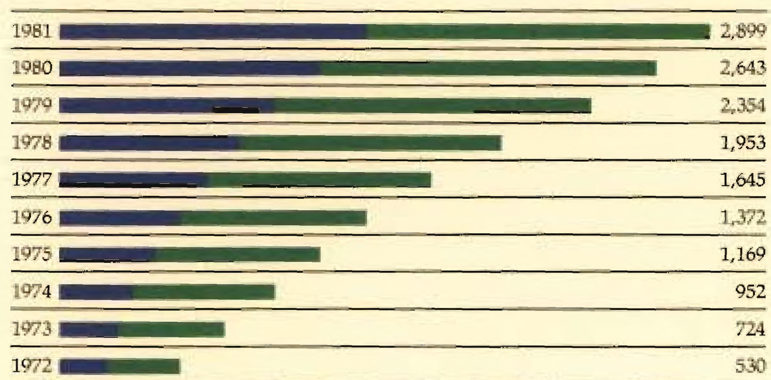
Total systemwide sales *in millions of dollars*
United States   International



Net income; Funds generated from operations *in millions of dollars*
Net income   Funds generated from operations



Stockholders' equity; Long-term debt *in millions of dollars*
Stockholders' equity   Long-term debt



Stockholders' equity; Total assets *in millions of dollars*
Stockholders' equity   Total assets

1981 year in review

McDonald's reached a number of milestones in 1981:
☐ *Systemwide sales exceeded $7 billion*
☐ *Long-term debt declined on a calendar year basis for the first time*
☐ *Lowest long-term debt to equity ratio—.68*
☐ *Funds generated from operations exceeded 100% of capital expenditures, reaching 107%*
☐ *Record dollar increases:*
$903 million in systemwide sales
$44 million in net income
$230 million in stockholders' equity
$70 million in funds generated from operations

This report reviews the Company's operating results for the year 1981 and highlights the continuous corporate growth through numerous five-year comparisons.

Systemwide sales

Systemwide sales of $7,129,000,000 in 1981 represent an increase of 15% or $903,000,000—the largest dollar increase in Systemwide sales in the Company's history—over 1980 sales of $6,226,000,000. The 1981 sales were more than double that of five years ago. Contributing to this growth were sales by restaurants added and the increase in average sales of existing restaurants.

In 1981, 109 restaurants surpassed the $2 million sales mark and 3,718 reached the $1 million mark. In 1980, 102 topped $2 million and 2,817 surpassed the $1 million mark. The increase in the number of restaurants achieving $1 million in sales is particularly noteworthy when viewed in light of the impact of translating 1981's international sales into a strong U.S. dollar.

Revenues

Revenues totaled $2,515,836,000 in 1981, an increase of $300,373,000 or 14% over 1980 revenues of $2,215,463,000 and more than double the 1976 revenues of $1,176,436,000. Revenues include (a) sales by Company-owned restaurants, (b) revenues from franchised restaurants and (c) other revenues, including gains on sales of Company-owned restaurant businesses and interest income.

Revenues from franchised restaurants consist primarily of fees provided for by agreements that are part of the overall franchise arrangement with each franchisee. These fees are based upon a percentage of sales with a specified minimum payment and, under current agreements, generally amount to 11.5% or more of a restaurant's sales.

Increases in total revenues are due principally to sales generated by new restaurants and the increased sales from existing restaurants. Although price increases do contribute to the growth in revenues, it is impractical to accurately determine their impact because of the lack of uniform pricing throughout the system, new product introductions and variances in product mix.

Net income

Net income for 1981 amounted to $264,834,000, a record increase of $43,941,000 or 20% over the 1980 net income of $220,893,000 and nearly 2½ times the 1976 net income of $109,180,000. Net income as a percentage of total revenues increased to 10.5% in 1981, compared with 10.0% in 1980 and 9.7% in each of the preceding three years.

Operating results

The following table sets forth for each of the major revenue categories the consolidated margin before general, administrative and selling expenses, interest expense and income taxes for the most recent five years.

	1981	1980	1979	1978	1977
Sales by Company-owned restaurants	17%	17%	17%	17%	18%
Revenues from franchised restaurants	85	85	86	87	86

The Company-owned restaurants generally adjust menu prices to compensate for increased costs and expenses, which over the five-year period included higher commodity costs, increases in the minimum wage, higher employee benefit costs, greater advertising and promotion expenditures, higher utility costs and increased maintenance and repair expenses. During 1981 food costs remained relatively stable, except for beef costs, which declined from the previous year. The minimum wage increased from $2.90 to $3.10 on January 1, 1980, and to $3.35 effective January 1, 1981. There is no increase in the U.S. federal minimum wage scheduled to take place in 1982.

The consolidated margins on Revenues from franchised restaurants in 1981 were unchanged from 1980, as the higher average sales generated an increase in fees that more than compensated for the higher occupancy costs incurred during the year. In addition, the franchise agreements for new restaurants and for existing restaurants—where the original term expired—provide for the current rate of 11.5% of a restaurant's sales and thus increase the proportion of restaurants at this rate. Fees under domestic franchise agreements executed prior to 1970 generally range from 7.9% to 11% of a restaurant's sales.

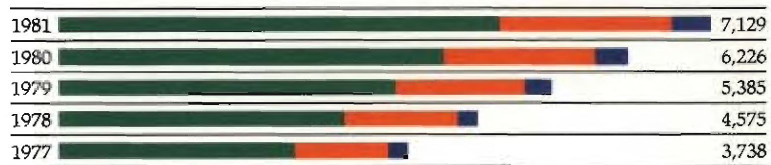
Contributing to the slightly lower consolidated margins for franchised restaurants in the last two years, in comparison with the earlier three years, were higher depreciation and rent expenses in expanding international markets and from the increase in average domestic building costs for restaurants opened in 1979. The cost of new construction in the U.S. moderated in the last two years due to the introduction of the Series 80 building, thus contributing to the margin stabilization in 1981 when compared with 1980.

An increase in the number of restaurants leased to other operators (a business facility arrangement in which a franchisee has the option to purchase the restaurant business) also contributed to the slightly lower franchised restaurant margins in the last two years. The number of business facility restaurants has grown from 107 at 1978 year-end to 279 at December 31, 1981. The term of the business facility arrangement is for three years or until the option to purchase is exercised, whichever occurs first. The Company owns the equipment, which a franchisee normally would own under a conventional franchise arrangement, in order to effect a lower cash requirement for the franchisee. In exchange for the franchisee's use of this equipment, the franchise fees are generally increased by 4.5% of a restaurant's sales. This arrangement reduces the consolidated margin on Revenues from franchised restaurants because of the additional depreciation expense associated with the equipment. The gain on sale that results when the option in a business facility arrangement is exercised is not included in the franchised restaurant margins. These gains, which more than offset the reduced margins incurred during the business facility term, are an integral part of the business facility arrangement and in 1981 averaged $175,000 per restaurant and in total amounted to $12,597,000. In comparison, the average gain in 1980 was $155,000, and total gains were $8,841,000.

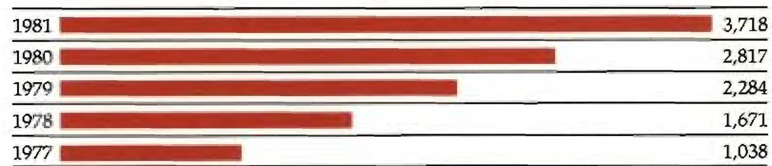
The Company added 476 restaurants in 1981, 341 in the U.S. and 135 in international markets. At year-end the worldwide total of restaurants was 6,739—5,554 in the U.S. and 1,185 in 29 other countries and territories. Of the total restaurants 4,580 (68%) are franchised, 1,746 (26%) Company-owned and 413 (6%) affiliated (joint ventures between McDonald's and local businesspeople). During the past five years, McDonald's has added 2,561 restaurants. An additional 100 restaurants were under construction at year-end 1981, including 35 outside the U.S.

During the past year McDonald's added 744 drive-thrus to the system, bringing the total at year-end to 4,482, compared to 3,738 at the end of 1980. McDonald's built its first drive-thru in 1975. Of the drive-thrus built in 1981, 382 were additions to existing restaurants. At year-end 1981, 79% of free-standing restaurants have drive-thru facilities which generally account for 40 to 45 percent of a restaurant's sales. The convenience of these facilities is a factor contributing to increased sales.

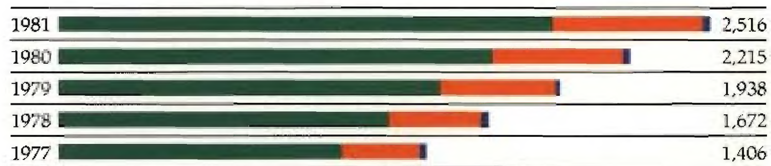
During 1981 McDonald's continued its expansion of McDonald's Playland facilities, bringing the total at year-end to 979, compared to 581 at the close of 1980. Built adjacent to restaurants or integrated into the interior design of the dining area, the McDonald's Playland features a McDonaldland theme and provides children with a place to



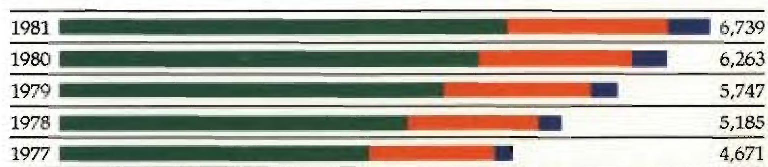
Systemwide sales *in millions of dollars*
Franchised · Company-owned · Affiliated



Number of restaurants with annual sales exceeding one million dollars



Revenues *in millions of dollars*
Sales by Company-owned restaurants · Revenues from franchised restaurants · Other revenues



Number of restaurants systemwide
Franchised · Company-owned · Affiliated

Net income as a percent of total revenues

Number of drive-thrus

Percent of free-standing restaurants with drive-thrus

Number of McDonald's Playland facilities

eat and play while the family enjoys a meal at McDonald's. These playlands have contributed to sales increases in both Company-owned and franchised restaurants.

McDonald's first restaurants were generally free-standing facilities, but today the Company has locations in malls and in-stores (storefront restaurants in shopping and/or business areas). At year-end 1981 the Company had 1,085 such locations worldwide, an increase of 117 from year-end 1980, including 102 in international markets.

During 1980 the Company introduced a new free-standing restaurant building—the Series 80 model. These buildings, which are slightly smaller and more standardized, have lower average construction costs and shorter construction periods than earlier models. In 1981, 85% of the U.S. openings were of the new Series 80 model; this compares to 28% in the previous year.

Fortune Magazine, in its July 13, 1981, issue, ranked the 50 largest "retailing" companies for the year 1980. McDonald's, with a net income of 10% of "operating" revenues, was first in this category. "Operating" revenues, as defined by Fortune, include Sales by Company-owned restaurants and Revenues from franchised restaurants. The Company was third in compounded annual growth rate in earnings per share—27% over the 10-year period ended December 31, 1980; and fifth in net income. In 1981 net income as a percentage of "operating" revenues was 10.7%, and the compounded annual growth rate in earnings per share for the 10 years ended December 31, 1981, was 25%.

This growth is reflected in the Company's operations as illustrated in the table and the discussion that follow:

	Increase over the previous year			
	1981		1980	
	(In thousands of dollars)			
	Amount	%	Amount	%
Systemwide sales	$903,000	15%	$841,000	16%
Revenues—				
Sales by Company-owned restaurants	$218,141	13	$202,551	14
Revenues from franchised restaurants	74,744	15	69,940	17
Other revenues	7,488	24	5,037	19
Total revenues	300,373	14	277,528	14
Costs and expenses—				
Company-owned restaurants	172,259	12	169,687	14
Expenses directly applicable to revenues from franchised restaurants	10,982	15	15,300	26
General, administrative and selling expenses	37,621	16	16,201	8
Interest expense	470	1	18,255	25
Total costs and expenses	221,332	12	219,443	14
Income before provision for income taxes	79,041	20	58,085	17
Provision for income taxes	35,100	19	25,800	17
Net income	$ 43,941	20	$ 32,285	17

The record increase in Systemwide sales stems from the increased number of restaurants and higher average sales. Restaurants opened during the year increased Systemwide sales by $200,000,000 in 1981 and $234,000,000 in 1980. Fewer restaurants were added in the first nine months of 1981 (273) than for the same period in 1980 (345), and this was a major factor in the sales variation between the two years. The impact of test products, the Company's successful national promotions ("Build a Big Mac" and "You Deserve a Break Today" games and the Muppet Glass promotion) and favorable weather in the first quarter contributed to the higher average sales in 1981. The translation of international sales into a strengthening U.S. dollar tempered the systemwide sales increase, especially in the latter part of 1981. Systemwide sales would have been $101,000,000 greater in 1981 if exchange rates had not fluctuated from 1980's levels.

The percentage increase in Revenues from franchised restaurants in each year is greater than the corresponding increase in Sales by Company-owned restaurants, primarily because of the greater percentage increase in the number of franchised restaurants during the periods. For the three-year period ended December 31, 1981, the number of franchised restaurants increased by 1,007 or 28%, as compared with an increase in the number of Company-owned restaurants of 340 or 24%. However, during 1981 the growth in the number of Company-owned restaurants of 9% outpaced the growth in franchised restaurants of 6%, which should affect this relationship in 1982 when a full year's impact will be realized.

Interest income and gains on sales of restaurant businesses, in total, amounted to over 70% of Other revenues in each of the last three years. The increase in Other revenues in both 1981 and 1980 was primarily due to an increase in interest income resulting from an increased level of notes receivable and gains resulting from the repurchase, prior to redemption, of a greater amount of the Company's sinking fund notes than in the previous year. Foreign currency exchange gains and losses are also included in this category (see Financial comments on page 35).

The Company-owned restaurant margin increased in 1981 as the rate of growth in sales exceeded the comparable rate in related costs and expenses. The latter was marked by a lesser increase in food costs, which offset higher promotional and utility expenses.

Expenses directly applicable to Revenues from franchised restaurants advanced less rapidly in 1981 than in 1980 due primarily to the effect of the moderation of U.S. building costs on depreciation expense.

The increase in General, administrative and selling expenses over the comparable year-ago periods is indicative of the Company's expanded level of operations in each year. Increased payroll and related benefit costs, an increased level of employees and a growing international market have all contributed to this increase.

The substantial increase in funds generated internally reduced the additional debt required during the year, thereby resulting in a moderation of interest costs in 1981. The increase in interest expense in 1980 was due primarily to the large increase in debt during 1979, which had a full year impact on interest expense in 1980 but only a partial year effect in 1979.

A discussion of the impact of inflation and changing prices on sales, revenues and net income of the Company begins on page 40.

The groundbreaking for the McDonald's Olympic Swim Stadium took place in 1981. At the ceremony Sam, the Olympic Eagle, is flanked by Ronald McDonald and Paul Schrage, Executive Vice President and Chief Marketing Officer of McDonald's. The Company and its franchisees are underwriting the 11,000-seat stadium which will be used for all swimming events at the 1984 Olympic Games in Los Angeles.

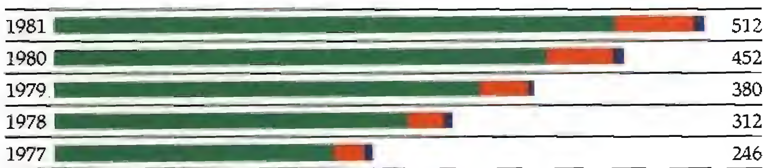
This attractive row house in Toronto, Canada—a Ronald McDonald House—opened in the spring of 1981 and was the first such facility located outside the United States. A Ronald McDonald House is a home near a children's hospital where the family of a seriously ill child can stay while the youngster receives treatment. At year-end 1981, 32 Ronald McDonald Houses were in operation.

What's new at McDonald's? Take your pick of five tasty test products, clockwise from top, the McChicken sandwich, a breaded, battered, deep-fried chicken patty served on a sesame seed bun with a special sauce and lettuce; the McRib sandwich, boneless pork topped with onions, pickles and barbeque sauce, served on a home-style roll; Chicken McNuggets, breaded, battered, deep-fried nuggets of boneless chicken served with a choice of four sauces; and the Biscuit Breakfast entrees, buttermilk biscuits with either a thick slice of grilled southern-style ham or a patty of pure pork sausage inside. These products are being tested in selected markets.

In 1981, for the 10th consecutive year, McDonald's restaurants in North America participated in the Jerry Lewis Labor Day Telethon benefitting the Muscular Dystrophy Association. Shown appearing on the nationally televised event with Jerry Lewis is Irv Klein, 1981 Chairman of the Operators National Advertising Fund. McDonald's restaurants and their customers contributed more than $1.2 million to the 1981 telethon.

International Division number of restaurants
■ Company-owned ■ Franchised ■ Affiliated

International Division sales *in millions of dollars*
■ Company-owned ■ Franchised ■ Affiliated



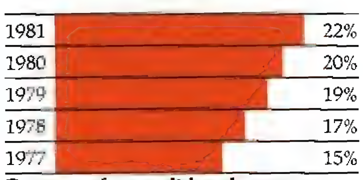
International Division revenues *in millions of dollars*
■ Sales by Company-owned restaurants ■ Revenues from franchised restaurants
■ Other revenues

International Division

Percent of systemwide sales

Percent of consolidated revenues

Percent of consolidated income before general, administrative and selling expenses, interest expense and income taxes



Percent of consolidated assets

International Division operations

In 1981 McDonald's added its 300th restaurant in Japan, its 150th in Germany and opened its first restaurants in Spain, Denmark and the Philippines.

Expansion outside the United States is accomplished through the development of restaurants operated by 1) the Company—through wholly-owned subsidiaries; 2) franchisees—individuals granted franchises by the Company, a wholly-owned subsidiary or an affiliate; and 3) affiliates—companies where McDonald's equity is 50% or less and the remaining equity is generally owned by a resident national. The restaurants operated by the Company are mainly in Canada, Germany and Australia; franchised restaurants are primarily in Canada, Germany and other Western European countries, Australia and Central America; and affiliated restaurants are principally in Japan, England and Hong Kong.

The number of International Division restaurants is 2½ times the number five years ago, growing from 467 at December 31, 1976, to 1,185 at December 31, 1981. International Division sales were $1,358,886,000 for 1981, quadrupling the 1976 sales of $333,285,000, a compounded annual growth rate of 32%. In 1981 International Division systemwide sales comprised 19% of worldwide systemwide sales, as compared with 11% in 1976.

Revenues and Costs and expenses in the International Division reflect operations of wholly-owned subsidiaries, fees from restaurants operated by independent franchisees and affiliates, and the Company's share of operating results of affiliated companies. Certain of the fees are received in the United States. Included in Other revenues are all foreign exchange gains and losses, including those resulting from hedging activities.

Revenues from International Division operations have increased from $181,636,000 in 1976 to $511,598,000 in 1981, a compounded annual growth rate of 23%. The contribution to consolidated income before general, administrative and selling expenses, interest expense and income taxes by International Division operations has grown from $40,056,000 in 1976 to $125,432,000 in 1981, a compounded annual growth rate of 26% for the five-year period. Consequently, International Division operations make a significant contribution to the corresponding consolidated amounts, as illustrated by the following table:

International Division	1981	1980	1979	1978	1977
Contribution to consolidated:					
Revenues	20%	20%	20%	19%	17%
Income before general, administrative and selling expenses, interest expense and income taxes	15	15	14	13	12

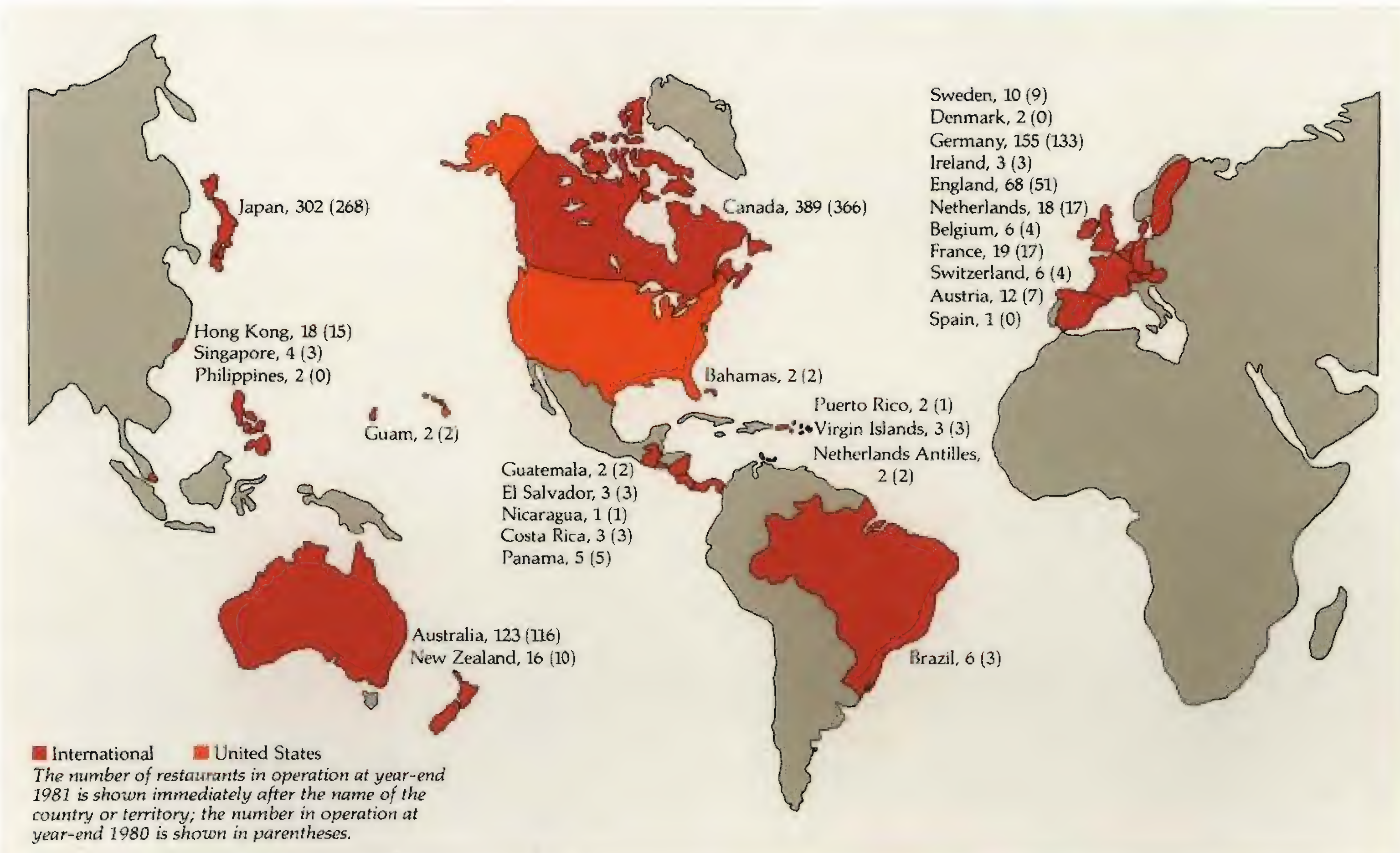
Total assets in the International Division included in the consolidated financial statements are 3.6 times the number five years ago, going from $178,532,000 at December 31, 1976, to $636,093,000 at December 31, 1981. These assets are located mainly in Canada, Germany and Australia.

The impact of a stronger U.S. dollar on the value of foreign currencies was reflected in the sales, revenues and expenses of the International Division. If exchange rates had remained at 1980 levels, 1981 International Division sales would have been $101,154,000 higher, revenues $46,431,000 higher, and the International Division's contribution to consolidated income before general, administrative and selling expenses, interest expense and income taxes $12,892,000 higher than 1981's reported amounts—in each instance an increase of 24% over 1980. The impact of exchange rate fluctuations prior to 1981 was not material.

International Division—Five year financial information

	1981	1980	1979	1978	1977
	(Figures in thousands, except number of restaurants and number of countries and territories)				
Sales by—					
Company-owned restaurants	$ 438,742	$ 388,641	$335,060	$274,246	$220,550
Franchised restaurants	502,968	440,414	337,283	252,988	165,180
Affiliated restaurants	417,176	347,581	264,503	199,760	110,793
Total sales	$1,358,886	$1,176,636	$936,846	$726,994	$496,523
Revenues—					
Sales by Company-owned restaurants	$ 438,742	$ 388,641	$335,060	$274,246	$220,550
Revenues from franchised restaurants	64,568	56,081	41,583	31,135	20,217
Other revenues	8,288	7,085	3,354	6,312	5,116
	511,598	451,807	379,997	311,693	245,883
Costs and expenses—					
Company-owned restaurants	370,869	327,703	284,755	234,906	185,414
Expenses directly applicable to revenues from franchised restaurants	15,297	12,387	7,320	4,815	2,696
	386,166	340,090	292,075	239,721	188,110
Income before general, administrative and selling expenses, interest expense and income taxes	$ 125,432	$ 111,717	$ 87,922	$ 71,972	$ 57,773
Total assets	$ 636,093	$ 530,738	$446,296	$334,690	$244,733
Number of restaurants at end of year—					
Operated by the Company	349	312	291	263	239
Operated by franchisees	431	391	327	252	198
Operated by affiliates	405	347	272	205	149
Total restaurants	1,185	1,050	890	720	586
Number of countries and territories	29	26	26	24	23

International Division—Number of restaurants by country



The number of restaurants in operation at year-end 1981 is shown immediately after the name of the country or territory; the number in operation at year-end 1980 is shown in parentheses.

Advertising and community relations

McDonald's marketing programs are directed by a corporate marketing department, which consists of staff people at the Oak Brook, regional and international offices. Currently six national agencies in the fields of advertising, promotion and public relations work directly for the Company. In January 1982 the Leo Burnett Company of Chicago joined the McDonald's marketing team and functions as McDonald's national advertising agency for the United States. In addition, there are in excess of 100 other agencies in the United States and throughout the world; they implement marketing programs at the local level.

McDonald's restaurants in the U.S. voluntarily contribute a percentage of sales to OPNAD, the Operators National Advertising Fund, for national advertising and to local advertising cooperatives for local advertising. McDonald's restaurants abroad make similar marketing contributions to cooperatives in their areas.

Approximately $322 million, or 4.5% of systemwide sales, were spent on advertising in 1981 by McDonald's Corporation, its franchisees and affiliates. This represents an increase of $40 million over the 1980 systemwide expenditures of $282 million and more than double 1976's systemwide expenditures of $135 million. According to advertising industry sources, McDonald's is the 14th largest advertiser in the United States.

As in the past McDonald's continues to develop ad campaigns with the customer in mind—campaigns which emphasize people situations and which are typical of life today. The 1981 theme was a rebirth of a past McDonald's theme. The "You Deserve A Break Today" slogan was reintroduced and aptly depicts today's lifestyle.

Involvement and support of charities and special projects has always been important to McDonald's on both the local and national level. On the local level community involvement is emphasized in local markets and individual restaurants throughout the system. On the national level donations to charities, the granting of awards, sponsorships and the underwriting of public television are but a few examples of McDonald's involvement.

For the 10th consecutive year, McDonald's restaurants across North America supported the fight against Muscular Dystrophy, a debilitating disease that mainly affects children. Funds were raised for the Jerry Lewis Labor Day Telethon through a variety of programs including product promotions, donation canisters and balloon offers. The efforts led to a contribution of $1.2 million. During the years of sponsorship of the national telethon, McDonald's restaurants have raised more than $10 million for this charity.

During 1981 the McDonald's All-American High School Band appeared in the Macy's Thanksgiving Day Parade and the Pasadena Tournament of Roses Parade. In April the McDonald's All-American High School Basketball Team played in the fourth annual McDonald's All-American Game which benefited the Ronald McDonald House of Wichita, Kansas. In the past four years, the McDonald's All-American Games have raised more than $125,000 for charity.

For the three years preceding the 1984 Olympic Games, McDonald's Corporation will be the official sponsor of "age group" and Junior Olympic swimming. The program will feature 187 swim meets for athletes ages 7 to 18. The meets, each sponsored by McDonald's, will be conducted by U.S. Swimming Inc., the organization that coordinates the U.S. Amateur Swimming Program. These pre-Olympic events reflect McDonald's long-term commitment to activities involving youth sports.

In addition to supporting pre-Olympic Games events, McDonald's sponsorship plans include underwriting costs associated with the McDonald's Olympic Swim Stadium on the University of Southern California campus. The stadium, to be used for the Olympic competition, will be donated to the University of Southern California for its use and the use of the residents of the local community after the Olympics are concluded.

For the past five years, McDonald's has underwritten public television's "Once Upon A Classic" series. For the second consecutive year, the series has received an Emmy Award. A six-episode program entitled "A Tale of Two Cities" won the Emmy honoring the "outstanding children's entertainment series." The winning program, produced by the British Broadcasting Company and Time/Life Television, was based on the famous Charles Dickens novel.

On the local level community involvement encompasses thousands of community projects and through these efforts McDonald's demonstrates the spirit of being a "good neighbor." Special Olympics, library and dental health programs, and other community and restaurant activities help achieve this goal.

One example is the "Playing Safe With Ronald McDonald" public-service program. The program is a school safety show which has been entertaining and educating school children across the United States since the beginning of 1981. The show deals with such topics as traffic and home safety, fire, poisons, saying "no" to strangers and what to do when you are lost, and teaches the value of reading. The star of the show is, of course, Ronald McDonald. He uses magic, stories and children from the audience to teach his safety message. The program has been endorsed by the National Safety Council, the American Red Cross and the National PTA.

One project continuing to receive attention is the Ronald McDonald House program. In 1981 McDonald's Corporation and its national public relations firm, Golin/Harris Communications, received the Silver Anvil Award for the Ronald McDonald House program. Presented annually by the Public Relations Society of America and considered the profession's highest award, it recognizes the Ronald McDonald House program as an outstanding public relations and community service activity. A Ronald McDonald House is a home established near a children's hospital, which provides shelter for families of seriously ill children for a small fee or free-of-charge if financial hardship exists. McDonald's restaurants in the individual communities spearhead the drives to build the homes, then maintain them with the help of other civic groups and parent organizations.

People development and training

In order to meet the McDonald's commitment of Q.S.C. & V. (Quality, Service, Cleanliness and Value), the Corporation founded Hamburger University to train its managers, franchisees and corporate personnel. The University, opened in 1961, limited its curriculum to restaurant operations. In recent years, however, the course work has been expanded to include classes in management skills, personnel and psychology, along with advanced teaching methods and equipment utilization.

In 1981 Hamburger University reached a milestone when it awarded its 20,000th "Bachelor of Hamburgerology" degree. The 10,000th student graduated just five years ago. During 1981 a total of 1,688 students graduated from the basic program, with another 502 individuals completing a variety of other courses of study.

Also during the year the American Council on Education evaluated the Hamburger University curriculum, staff and facilities, and approved 18 courses for college credit. Students can now receive undergraduate credit for the courses at many colleges and universities. Thus, McDonald's management training center has earned its place among America's institutions of higher learning.

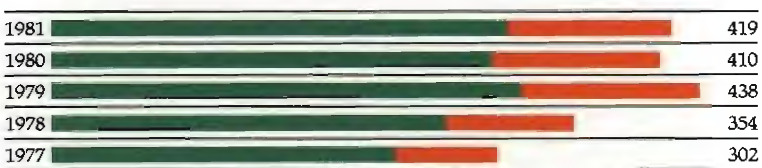
A Danish family enjoys a McDonald's picnic on the grounds of Kronborg Castle, located near the town of Helsingor and historically remembered as the scene of Shakespeare's Hamlet. *McDonald's entered three new countries in 1981: Spain, Denmark and the Philippines. McDonald's now has restaurants in 29 countries and territories outside the United States.*

The Golden Store Award is the highest and most coveted honor given to a member of the McDonald's system who has exhibited consistent excellence in operations. In 1981 that award went to Don McKnight, right, of Hartford, Connecticut, the first manager ever to receive the award. Congratulating the winner on his outstanding contributions during his 17 years of service with McDonald's is Ed Rensi, Executive Vice President and Chief Operations Officer.

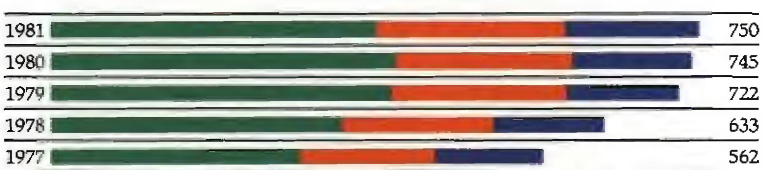
Ronald McDonald, the goodwill ambassador of McDonald's restaurants around the world, frequently visits children in hospitals. Here he entertains a young patient at a California hospital.

Each year since 1967 McDonald's has sponsored the McDonald's All-American High School Band, comprised of top high school musicians. In 1981 the band included 104 members—two from each state and the District of Columbia, plus one each from the U.S. Virgin Islands and Puerto Rico. The band performed in Macy's Thanksgiving Day Parade in New York City and the Pasadena Tournament of Roses Parade on New Year's Day.

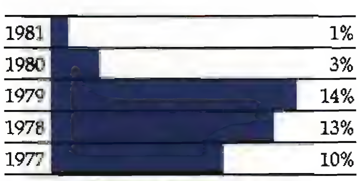
Capital expenditures by type of property *in millions of dollars*
New restaurant properties · Existing restaurant properties · Other properties



Capital expenditures for property and equipment *in millions of dollars*
United States · International

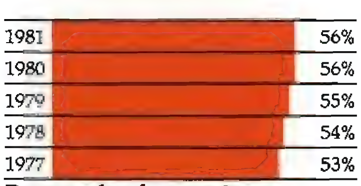


Average costs—U.S. restaurant properties *in thousands of dollars*
Building · Equipment · Land

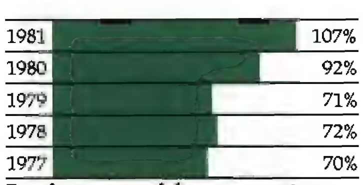


Percent increase over prior year—total average costs—U.S. restaurant properties

Average days to construct U.S. free-standing buildings *number of days*



Percent of real estate sites owned worldwide



Funds generated from operations as a percent of property and equipment expenditures

Financial position

Total assets at December 31, 1981, amounted to $2,899,322,000, more than double the total assets of $1,372,174,000 five years ago. Net property and equipment was $2,496,643,000 at December 31, 1981, or 86% of total assets. Expenditures for property and equipment have been the Company's single largest use of funds.

The investment of these funds for the past five years in New and Existing restaurant and Other properties is summarized by the following table:

	1981	1980	1979	1978	1977
					(In thousands of dollars)
New restaurant properties—					
Land and building	$248,300	$248,300	$274,600	$233,900	$197,500
Equipment	44,700	42,100	44,600	27,100	24,000
	293,000	290,400	319,200	261,000	221,500
Existing restaurant properties—					
Expansions, remodelings, and improvements	45,500	47,200	46,700	37,000	30,800
Equipment	36,500	37,500	34,000	34,000	27,100
Acquisitions of properties previously leased and properties for additional parking	14,800	18,900	19,600	11,900	10,100
	96,800	103,600	100,300	82,900	68,000
Other properties	28,887	16,457	18,254	10,195	12,136
	$418,687	$410,457	$437,754	$354,095	$301,636

The increase in expenditures on Existing restaurants in the last three years resulted primarily from the installation of drive-thru facilities and playlands, equipment required for new product introductions, new point-of-sale equipment and the purchase of properties previously leased. Inflationary increases in equipment and construction costs, as well as growth in the number of existing restaurants, also contributed to this increase.

The decrease in expenditures for New restaurant properties in 1980 reflects in part the lesser number of restaurants under construction at year-end, 93 at 1980, compared to 138 at 1979. At December 31, 1981, there were 100 restaurants under construction.

The amount of capital required is largely dependent upon the cost of land, building and equipment and the number of restaurants added during the year. The following table shows approximate average costs for United States restaurant properties for the last five years.

	1981	1980	1979	1978	1977
Land	$155,000	$142,000	$135,000	$127,000	$123,000
Building	368,000	389,000	382,000	326,000	279,000
Equipment	227,000	214,000	205,000	180,000	160,000
	$750,000	$745,000	$722,000	$633,000	$562,000

Average building costs declined 5% in 1981, which is reflective of the Series 80 building innovations as this design was applied to virtually all U.S. free-standing openings this year. More research and development went into this new series of buildings than into any other building program in the Company's history. The result is the most work-efficient, economical, energy-efficient and expandable restaurant McDonald's has ever built. Because the Series 80 facility takes significantly less time to construct than previous designs, there are also additional savings on interest costs. The average time to construct

free-standing buildings has declined from 169 days for 1979 openings to 138 in 1980 and to 115 for 1981 openings.

In 1980 building costs increased a modest 2%, due to the introduction of the Series 80 building design in the latter half of the year. The increases in domestic building costs in years prior to 1980 were a result of inflationary pressure on construction costs, particularly costs for paving (which is petroleum based), more new restaurants being constructed with drive-thrus and higher capitalized interest due to increased interest rates.

Restaurant properties are generally more expensive outside the United States. For example, Canada's average land, building and equipment costs for 1981 openings totaled $1,038,000, and building costs alone for 1981 openings averaged approximately $500,000 in Germany. However, average sales for restaurants in the International Division are also higher than in the U.S.

The Company continues to emphasize owning restaurant facilities. At year-end McDonald's owned 3,779 or 56% of its real estate locations worldwide, as compared with 2,173 or 52% five years ago. The Company feels that owning properties will yield long-term benefits, such as the counter-inflationary advantages of owning as compared with leasing.

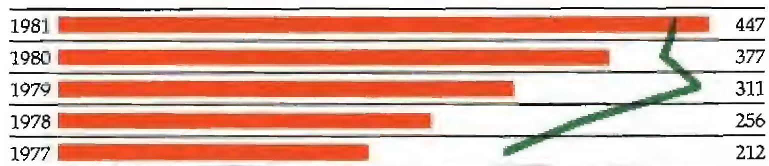
The funds generated from operations in 1981 were $447,442,000, an increase of 19% or $70,270,000—the largest annual dollar increase in the Company's history—over 1980's amount of $377,172,000. In 1981 funds generated from operations were 107% of expenditures for property and equipment, as compared with 92% in 1980 and 71% in 1979. Funds generated from operations, which were favorably affected during 1981 by the Accelerated Cost Recovery System tax legislation enacted during the year, should be more significantly affected by this legislation in each subsequent year as new layers of capital expenditures are added. As the Consolidated Statement of Changes in Financial Position reflects, working capital generated from operations is used not only for property and equipment additions, but also for other items, including restaurant businesses purchased, cash dividends and debt repayments.

As planned, at year-end 1981 the current ratio was .5. Because working capital generated from operations is significant relative to funds required, and because the Company has $275 million of long-term lines of bank credit under existing agreements, a lesser amount of cash, certificates of deposit and short-term investments need be maintained to meet current obligations. Therefore, excess funds are used to reduce long-term debt. This cash management program results in better cash utilization and avoids unnecessary interest expense.

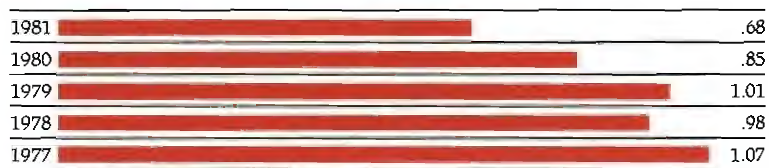
In 1981 total assets increased by $256 million, and stockholders' equity advanced by $230 million. Long-term debt decreased by $44 million, in part because of the Company's cash management program previously described. Thus, the long-term debt to equity ratio has improved from .85 at 1980 year-end to .68 at December 31, 1981. Five years ago this ratio was 1.16. Stockholders' equity as a percentage of total assets has grown from 38% five years ago to 47% at December 31, 1981.

At December 31, 1981, the Company's long-term bank credit agreements amounted to $275 million. At year-end there was a Deutsche Mark revolving credit loan equivalent to $77 million and short-term notes of $157 million which are classified as long-term debt since they are supported by these bank credit agreements. Also at year-end 1981,

Funds generated from operations—increase over previous year
in millions of dollars

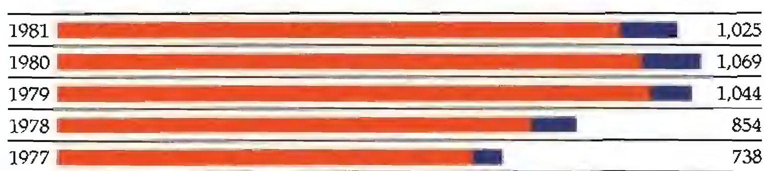


Funds generated from operations; Capital expenditures for property and equipment *in millions of dollars*
Funds generated from operations
Capital expenditures for property and equipment



Long-term debt to equity ratio

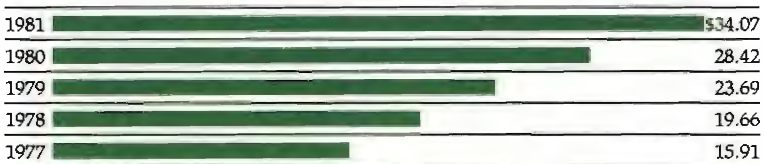
Percent of stockholders' equity to total assets



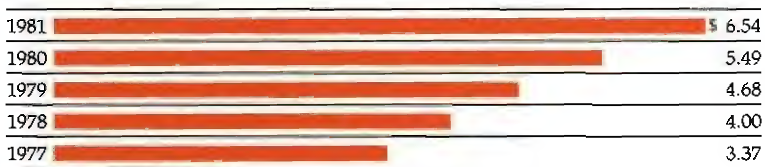
Composition of total debt *in millions of dollars*
Long-term debt Current debt

Return on average equity

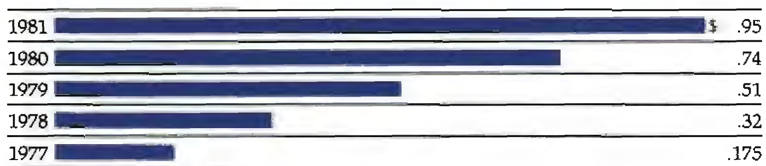
Return on average total assets



Stockholders' equity per share



Earnings per share



Dividends paid per share

certain of the Company's international subsidiaries had $36 million of unused short-term bank lines of credit available, as compared with $22 million one year ago.

It is anticipated that our 1982 capital expenditures will be more than covered by funds generated internally. To the extent that external financing is required in 1982, due to either growth needs or refinancing requirements, it will follow the pattern of prior years by using short-term notes supported by long-term bank credit agreements to avoid entering into long-term debt obligations bearing extremely high interest rates. Conversion to long-term debt financing would take place when long-term interest rates become acceptable. The Company has neither experienced nor does it expect difficulty in obtaining external financing as needed. In line with past practice, a portion of 1982 new restaurant properties will be obtained through leasing. In the past two years, the Company and its affiliates have leased the land related to approximately 45% of its worldwide openings and 36% of its domestic openings.

The returns on average equity and average total assets for the last five years follow:

	1981	1980	1979	1978	1977
Return on average equity	21.1%	21.1%	21.6%	22.6%	23.6%
Return on average total assets	20.7	19.7	19.4	20.9	21.4

Net income was used to calculate the return on average equity; the return on average total assets was computed by using income before income taxes and interest expense.

IndustriScope, in its February 1982 issue which listed the common stocks of 1,800 public companies, showed McDonald's to be in the top 18th percentile in both return on equity and return on assets.

Common stock

Stockholders' equity per common share has increased from $12.75 at December 31, 1976, to $34.07 at December 31, 1981, a compounded annual growth rate of 22%.

During 1981 the Company paid a first quarter dividend of $.20 and three subsequent quarterly dividends of $.25, for a total of $.95 per share. In 1980 the Company paid a first quarter dividend of $.14 and three subsequent quarterly dividends of $.20, for a total of $.74 per share. In 1981 the dividends per share increased 28% over 1980. The Company will consider additional dividend increases after giving due consideration to return to investors, future profitability expectations and financing needs. For information regarding dividend restrictions, see the Financial comments on page 37.

The Company's common stock is listed on the New York, Midwest, Pacific and Toronto Stock Exchanges. As of February 19, 1982, there were 22,717 stockholders of record. The market price ranges on the New York Stock Exchange, representing the high and low closing price for the periods indicated, were as follows:

	1981	1980
First quarter	$62⅝-49¾	$45½-36¼
Second quarter	69½-60	50¾-40¼
Third quarter	64¾-57¼	51⅜-45¼
Fourth quarter	72¾-61½	48¾-43¾

Fortune Magazine, in its ranking of the 50 largest "retailing" companies discussed earlier, ranked McDonald's fifth in total return to investors over the 10-year period ended December 31, 1980. Total return includes both stock price appreciation and dividend yield.

The McDonald's restaurant: Where technology meets Q.S.C. & V.

In 1955 Ray Kroc opened a restaurant that started a revolution. It was an "industrial revolution" that changed the eating-out habits of millions of people around the world, for Ray Kroc not only founded a world-famous company, McDonald's, he also created an industry, the fast-service restaurant industry.

Ray Kroc did not invent new foods or food products. Rather, in the tradition of such entrepreneurial giants as Andrew Carnegie or Henry Ford, Mr. Kroc built a new type of production system. He combined innovative technology with controlled processing techniques to create consistent, high-quality, affordable meals that could be quickly prepared and served in pleasant, family restaurants.

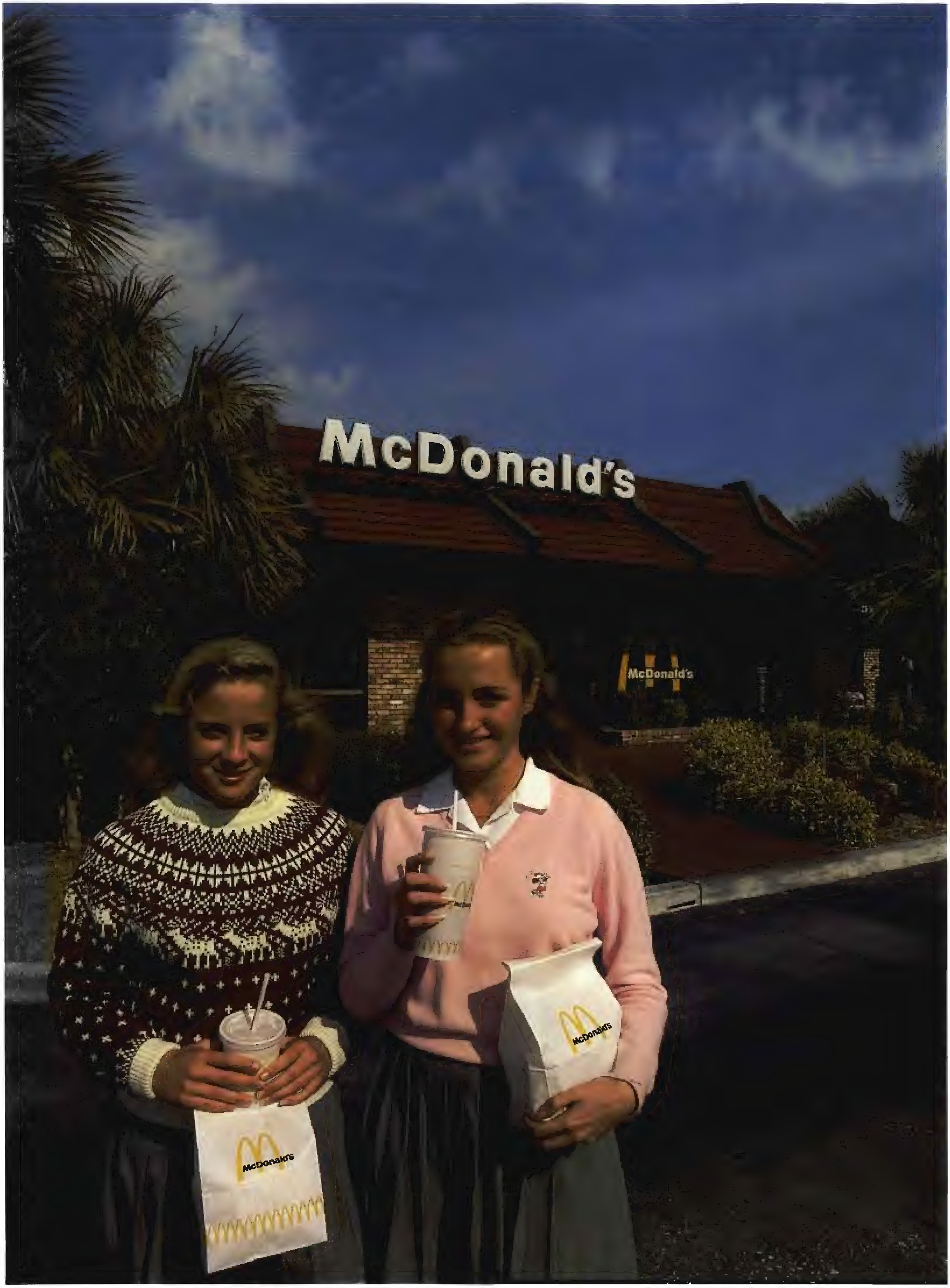
McDonald's unique system won wide recognition. For example, on the pages of the *Harvard Business Review,* Theodore Levitt, a professor at the Harvard Business School, lauded the Company for applying "manufacturing and technological brilliance" to an industry that previously consisted of many small restaurants where the taste and quality of the food depended upon the discretion, experience and know-how of the cooks.

McDonald's took such guesswork out of the foodservice business by applying sophisticated procedures that geometrically increased productivity while ensuring quality and an enjoyable eating-out experience. The secret of McDonald's success, as Professor Levitt claimed, rested in the "rapid delivery of a uniform, high-quality mix of prepared foods in an environment of obvious cleanliness, order and cheerful courtesy." The secret, claim other experts, was McDonald's ability to initiate and maintain its quality-control systems through a network of hardworking, dedicated franchisees and Company employees.

Instrumental to Ray Kroc's "industrial revolution" was the McDonald's restaurant, for it became the facility where McDonald's processing techniques were put into practice and the place to which customers came for a taste of McDonald's.

The first McDonald's restaurant was a sleek, 1950s-style, red-and-white striped tile building with large structural Golden Arches. Its streamlined glass, chrome and tile exterior housed an equally streamlined kitchen and convenient customer service counter. According to

Americans first met McDonald's in a sparkling clean, red-and-white tile restaurant with brightly lighted Golden Arches.


McDonald's
McDonald's
McDonald's
McDonald's

Company lore, Ray Kroc and his team drew restaurant layouts in chalk on parking lots to determine the interior arrangement that would best help crewpeople prepare and serve the food quickly in accordance with Company standards.

In the late 1960s the restaurant took on a homier look, with a brick exterior, shingled double mansard roof and landscaped grounds. Inside, however, was another efficient kitchen and customer service counter plus a comfortable dining room. The Golden Arches remained, but as part of the signage. When this new restaurant style was introduced, there were 1,087 McDonald's in the system. Armed with statistics showing that the new restaurant attracted more customers, McDonald's and its family of franchisees decided to replace the red-and-white facilities with larger, more sophisticated models. This move proved to be a major impetus to the Company's growth.

Another major development in the free-standing restaurant took place in the 1970s with the introduction of the drive-thru. Today 79 percent of all free-standing McDonald's have drive-thrus. Their addition, because of the added convenience for consumers, has meant significant increases in individual restaurant sales.

As the building evolved, so did the equipment. The world's first French fry computer, solid-state timing devices, a direct-draw shake machine, a computerized order-taking system, tools like McDonald's patented French fry scoop—all added to the efficiency of and consistent quality produced by the McDonald's system.

The current state-of-the-art in McDonald's restaurants is found in the new Series 80 facility. More research and development went into this series of restaurants than into any other building program in the Company's history. As a result, McDonald's people have produced the system's most technologically advanced and efficient restaurant to date, one which serves customer needs better than ever before.

The McDonald's Series 80 restaurant, an expandable design, is the first to precisely gear each aspect of the facility—the cooking area, customer service counter, dining room, drive-thru, storage space and so on—to the restaurant's anticipated volume.

☐ Today in suburban locations around the world, the Golden Arches sign and the double mansard roof with its lighted beams signal the presence of a McDonald's restaurant ☐ Indoor seating, which McDonald's introduced in the 1960s, led to dramatic sales increases ☐ Millions of Americans have enjoyed watching the number on this sign grow; since 1955 McDonald's restaurants have served billions and billions of hamburgers.

While matching size to volume, the Series 80 makes better use of space. The food preparation area generally is smaller, because the equipment has been redesigned to take advantage of the latest technology. For instance, because of a more efficient refrigeration design, the new drink system has basically the same capacity as its predecessor, but utilizes only half the floor space.

The equipment is also more energy-efficient. The new fryer requires only 90,000 BTUs to maintain adequate cooking temperatures, compared to 140,000 BTUs with the previous model.

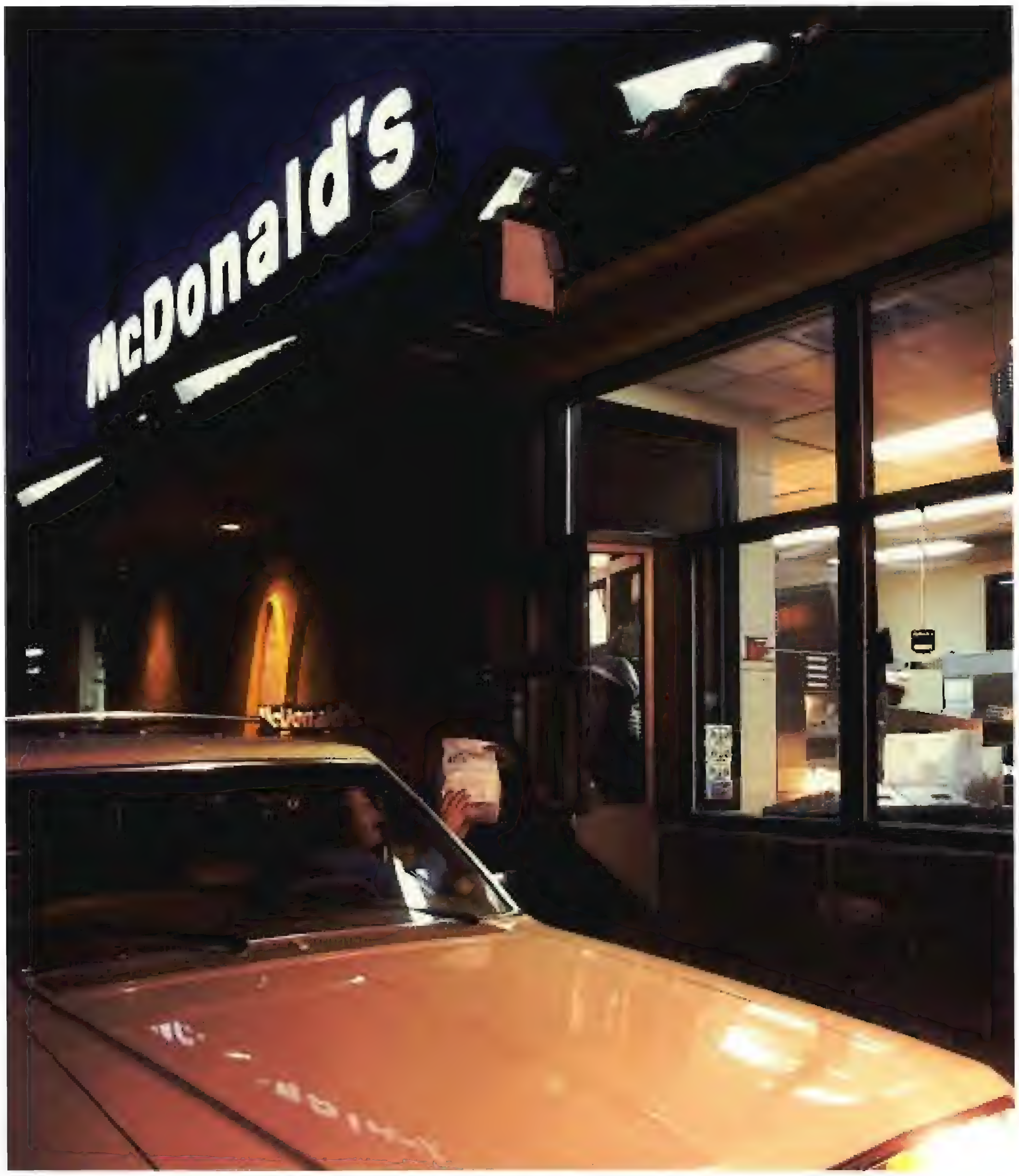
The restaurant is the most work-efficient that McDonald's has ever designed. The Company's industrial engineers, measuring in seconds of time, used computerized time-study methodology to plan the equipment layout and work scheduling.

The overall outcome has been a restaurant that costs less to build and less to operate. Since the introduction of the Series 80 model, the average construction time and costs of a free-standing McDonald's have decreased. For example, in 1981, during a period of escalating costs, average construction time went from 138 days down to 115 days, and average building costs decreased 5 percent.

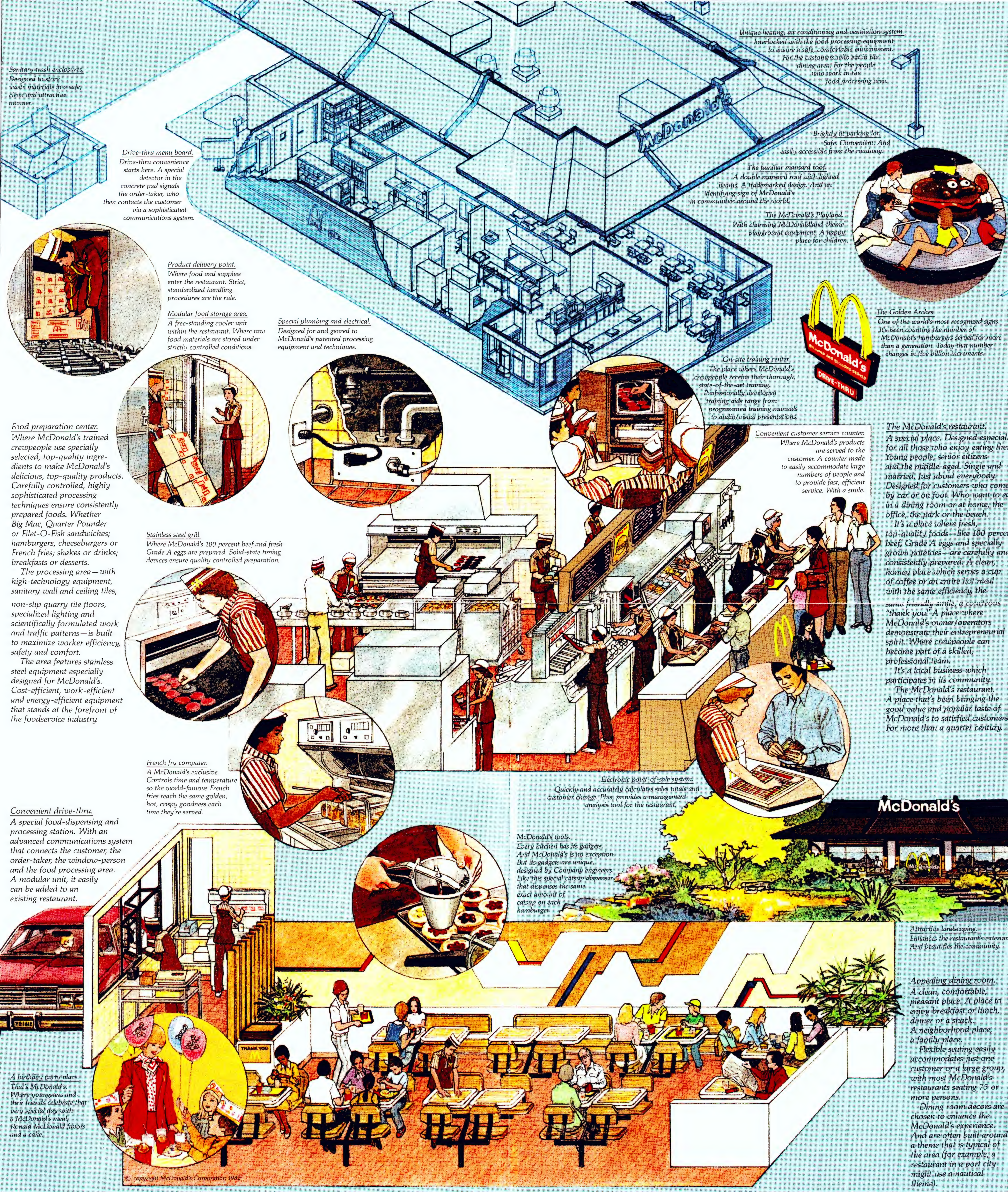
McDonald's applies the same analytic approach used in designing its facilities to the selection of its restaurant sites. Because a good location is essential to a restaurant's success, McDonald's real estate and marketing professionals make site selection and development a high priority.

Years of market research by the Company indicate that between 70 and 75 percent of a typical McDonald's business comes from a zone surrounding the restaurant called the "trading area." A number of factors, all carefully analyzed by McDonald's real estate staff, determine the size of the trading area: for example, the residential, working or shopping population surrounding the site; nearby schools, churches, commercial and industrial areas; and hourly traffic patterns for both cars and pedestrians.

The size of the site and building again depend on detailed data gathered and analyzed by McDonald's. Among the items considered

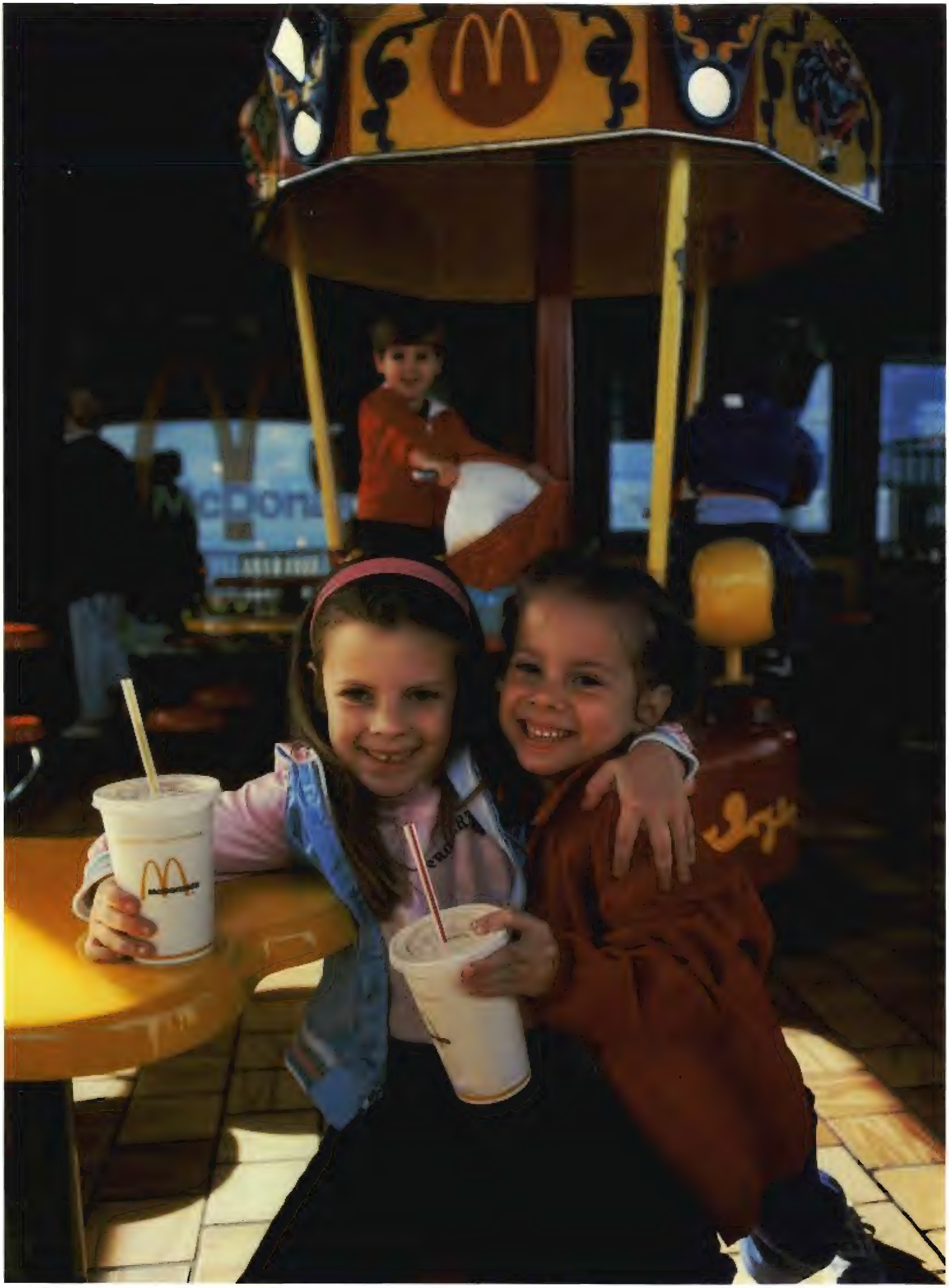


☐ *Drive-thrus are found at 79 percent of all free-standing McDonald's restaurants; a specially designed, computerized order-taking system ensures fast, convenient service* ☐ *Every aspect of the McDonald's system—even the proper way to crack an egg—is carefully planned and consistently executed.*



McDonald's: Where technology meets Q.S.C.&V.


McDonald's
McDonald's



When McDonald's builds a restaurant, it is designed to tastefully blend with its environment. The free-standing facility can be finished with any of 12 exteriors, ranging from an English Tudor to a Country French to an American Colonial style.

Consumers, the Company knows, also appreciate pleasant, home-like interiors, so great care is taken in designing appealing dining rooms and public areas. Often a restaurant's decor will be typical of its locale. For example, the McDonald's on the campus of the University of Michigan in Ann Arbor has a brick exterior with the same architectural style as the other campus buildings. Inside, the academic theme also is evident as the restaurant adopts the character of a student union.

To encourage innovative, attractive restaurants, the Company annually presents a series of decor and landscaping awards.

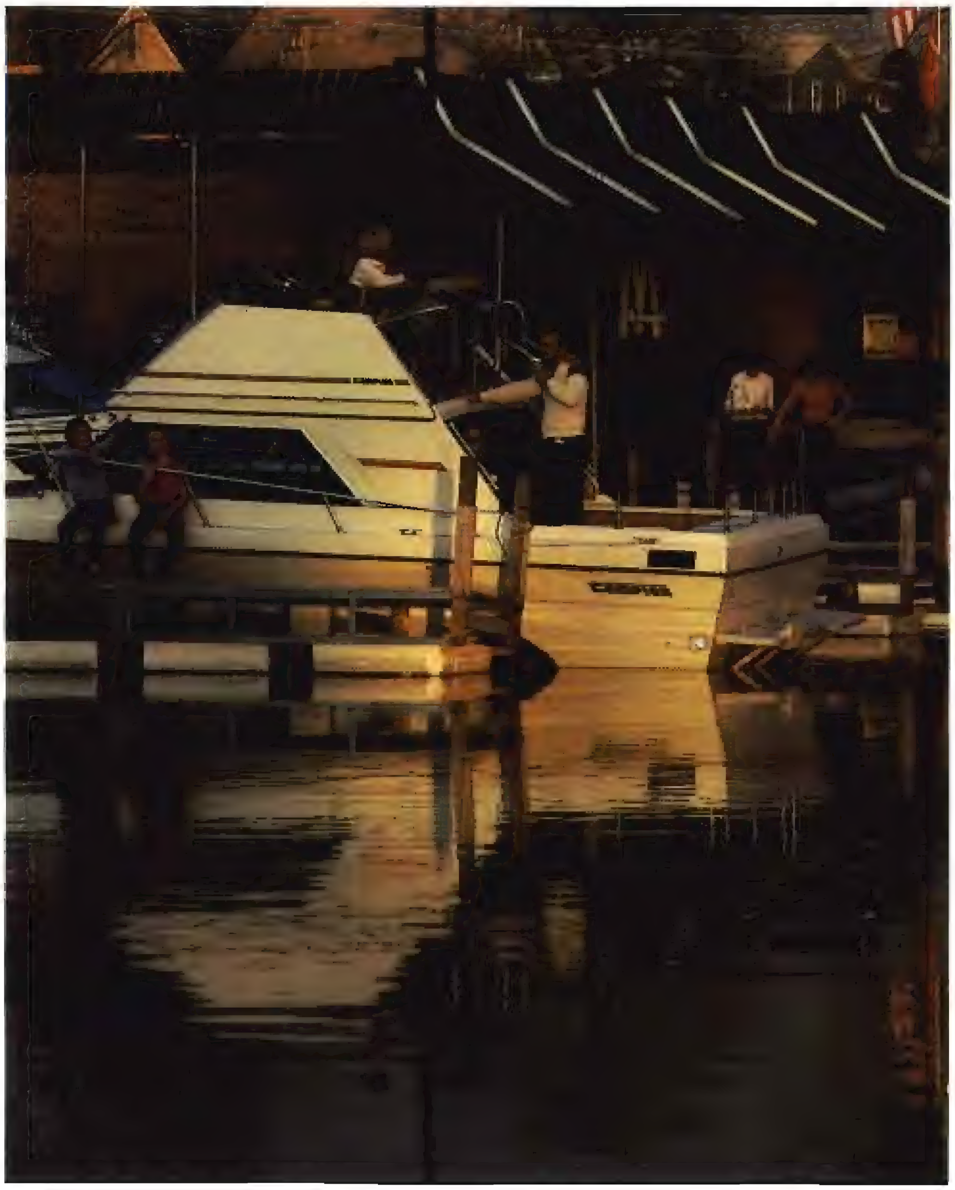
Besides having a pleasing decor that attracts customers, the interior of the restaurant serves as a marketing medium. The countertop displays, trayliners and the menu board with its lighted product/promotional posters help McDonald's market directly to the customer.

The search for new marketing opportunities and applications for the McDonald's restaurant is ongoing, involving the creativity and innovation of both franchisees and employees.

Within the past few years, this entrepreneurial drive has resulted in the creation of the McDonald's Playland, built adjacent to a restaurant or integrated into the interior design of the dining area. The playland facilities feature McDonaldland-theme playground equipment. Today they number 979 and are found in six countries.

Franchisees' capital investments are significant and are a necessary ingredient to the introduction of innovations on a systemwide basis, such as the new look in the 1960s, drive-thrus and playlands.

Owner/operator and employee entrepreneurship is responsible, too, for McDonald's expansion into many unusual types of markets. McDonald's restaurants now can be found on college campuses; in hospitals, airports and museums; at the Toronto Zoo; along interstate highways and tollways; even on a Mississippi riverboat anchored in the St. Louis, Missouri, harbor.



□ A McDonald's Playland adds fun to good food at restaurants around the world □ In Pueblo, Colorado, McDonald's is experimenting with a Mini-Mac, a smaller restaurant that caters only to drive-thru or pedestrian traffic □ Customers come by land—and by water—to this McDonald's in Fox Lake, Illinois.

But even as McDonald's looks forward, the past has not been forgotten. At the encouragement of architectural preservation organizations, such as the Society for Commercial Archaeology, a few of the original restaurants have been preserved as historical examples of 1950s architecture.

One such building in Portland, Oregon, shares its site with a brand new Series 80 McDonald's; the original unit has been converted to a room for birthday parties. These contrasting facilities vividly illustrate the evolution of the McDonald's restaurant and of the entire system.

Yet, no matter how unusual or typical its look and location, the McDonald's restaurant is much more than bricks and mortar. It is a vehicle through which McDonald's franchisees can build their own businesses, capitalizing on their entrepreneurial capability. It provides a career path for managers of franchised and Company-owned restaurants. It is a place that offers employment to thousands of crewpeople—teenagers starting their first job, homemakers returning to the work force and more. It is a neighborhood place which not only serves good-tasting food, but whose management and employees participate in community life, promoting many civic and charitable programs.

Today McDonald's is known around the world. In fact, each day in the United States alone, more than four percent of the population enjoys a McDonald's meal.

Yet, although McDonald's continues to experience tremendous growth and change, there are some things that have never changed. Just as McDonald's pioneers combined technology and an entrepreneurial spirit to create the McDonald's system, today's management, employees and owner/operators continue to improve the ways McDonald's can efficiently and pleasantly serve top-quality, top-value food to its customers. Like founder Ray Kroc, these McDonald's people are succeeding in their quest. The proof can be found in the restaurants themselves where growing numbers of customers around the world enjoy coming back to McDonald's day after day... and year after year.

☐ *While many customers appreciate the convenience of McDonald's dining rooms, others prefer to carry their food away from the restaurant—to home, the office, maybe even a nearby park* ☐ *Millions of people—from little children to grandparents—enjoy eating at McDonald's each year.*

McDonald's Corporation and Subsidiaries consolidated statement of income

		Years ended December 31, 1981	1980	1979
		(In thousands of dollars, except per share data)		
Revenues	Sales by Company-owned restaurants	**$1,915,908**	$1,697,767	$1,495,216
	Revenues from franchised restaurants	**561,321**	486,577	416,637
	Other revenues—net	**38,607**	31,119	26,082
	Total revenues	**2,515,836**	2,215,463	1,937,935
Costs and expenses	Company-owned restaurants—			
	Food and paper	**720,293**	660,869	602,647
	Payroll	**431,031**	384,133	333,818
	Rent	**23,873**	21,758	18,628
	Depreciation and amortization	**72,161**	60,886	51,177
	Other operating expenses	**341,921**	289,374	241,063
		1,589,279	1,417,020	1,247,333
	Expenses directly applicable to revenues from franchised restaurants—			
	Rent	**31,069**	27,791	23,725
	Depreciation and amortization	**54,214**	46,510	35,276
		85,283	74,301	59,001
	General, administrative and selling expenses	**268,323**	230,702	214,501
	Interest expense—			
	Total interest charges	**103,580**	102,401	82,863
	Less amounts capitalized	**12,263**	11,554	10,271
		91,317	90,847	72,592
	Total costs and expenses	**2,034,202**	1,812,870	1,593,427
Income before provision for income taxes		**481,634**	402,593	344,508
Provision for income taxes		**216,800**	181,700	155,900
Net income		**$ 264,834**	$ 220,893	$ 188,608
Net income per share of common stock		**$ 6.54**	$ 5.49	$ 4.68
Dividends per share		**$ .95**	$ .74	$ .51

The Financial comments beginning on page 34 are an integral part of the consolidated financial statements.

McDonald's Corporation and Subsidiaries consolidated balance sheet

		December 31, 1981	1980
		(In thousands of dollars)	
Assets			
Current assets	Cash	$ 23,067	$ 37,611
	Certificates of deposit	10,619	26,671
	Short-term investments, at cost, which approximates market	6,453	48,569
	Accounts receivable	60,790	55,247
	Notes receivable	15,436	11,473
	Inventories, at cost, which is not in excess of market	22,507	20,848
	Prepaid expenses and other current assets	37,282	33,521
	Total current assets	176,154	233,940
Other assets and deferred charges	Notes receivable due after one year	82,866	66,776
	Investments in and advances to affiliates	29,525	13,080
	Miscellaneous	32,883	31,733
	Total other assets and deferred charges	145,274	111,589
Property and equipment	Property and equipment, at cost	3,088,862	2,706,696
	Less accumulated depreciation and amortization	592,219	479,548
	Net property and equipment	2,496,643	2,227,148
Intangible assets, net		81,251	70,692
	Total assets	$2,899,322	$2,643,369

Liabilities and stockholders' equity			
Current liabilities	Notes payable	$ 5,538	$ 60,207
	Accounts payable	135,749	126,389
	Income taxes	53,859	57,054
	Other accrued liabilities	64,035	50,216
	Current maturities of long-term debt	93,730	38,756
	Total current liabilities	352,911	332,622
Long-term debt	Long-term debt	844,804	885,714
	Obligations under capital leases	80,704	84,076
	Total long-term debt	925,508	969,790
Security deposits by franchisees		63,139	59,651
Deferred income taxes		187,097	140,423
Stockholders' equity	Common stock, no par value, Authorized—100,000,000 shares	4,525	4,516
	Additional paid-in capital	100,337	94,023
	Retained earnings	1,289,662	1,063,080
		1,394,524	1,161,619
	Less treasury stock, at cost	23,857	20,736
	Total stockholders' equity	1,370,667	1,140,883
	Total liabilities and stockholders' equity	$2,899,322	$2,643,369

The Financial comments beginning on page 34 are an integral part of the consolidated financial statements.

McDonald's Corporation and Subsidiaries consolidated statement of changes in financial position

		Years ended December 31, 1981	1980	1979
			(In thousands of dollars)	
Source of working capital	Operations—			
	Net income	$ 264,834	$220,893	$188,608
	Items not involving working capital:			
	Depreciation and amortization	140,547	119,848	96,967
	Deferred income taxes	41,782	31,090	24,178
	Other—net	279	5,341	1,450
	Total from operations	447,442	377,172	311,203
	Issuance of common stock on exercise of options	12,584	751	584
	Long-term debt additions	414,370	408,709	506,937
	Property and equipment disposals (gains and losses included in operations)	23,210	19,383	18,682
	Notes receivable due after one year reductions	15,609	11,998	15,721
	Security deposits by franchisees	5,136	6,486	8,059
	Other	9,567	8,883	8,414
	Total source of working capital	927,918	833,382	869,600
Use of working capital	Property and equipment additions	418,687	410,457	437,754
	Noncurrent assets of businesses purchased	25,557	12,760	52,399
	Notes receivable due after one year additions	31,699	29,806	30,741
	Long-term debt reductions	458,926	401,929	321,611
	Cash dividends	38,252	29,731	20,516
	Treasury stock purchases	11,981	3,376	13,633
	Other	20,891	16,428	11,974
	Total use of working capital	1,005,993	904,487	888,628
Decrease in working capital		$ (78,075)	$(71,105)	$(19,028)
Changes in elements of working capital	Increase (decrease) in current assets:			
	Cash and certificates of deposit	$ (30,596)	$(47,000)	$ 29,680
	Short-term investments	(42,116)	19,161	(45,582)
	Accounts and notes receivable	9,506	10,145	7,478
	Inventories	1,659	3,050	3,466
	Prepaid expenses and other current assets	3,761	1,854	8,230
		(57,786)	(12,790)	3,272
	Increase (decrease) in current liabilities:			
	Accounts and notes payable	(45,309)	24,955	21,392
	Income taxes	(3,195)	29,832	(5,779)
	Other accrued liabilities	13,819	9,015	6,100
	Current maturities of long-term debt	54,974	(5,487)	587
		20,289	58,315	22,300
Decrease in working capital		$ (78,075)	$(71,105)	$(19,028)

The Financial comments beginning on page 34 are an integral part of the consolidated financial statements.

McDonald's Corporation and Subsidiaries consolidated statement of stockholders' equity

		Common stock		Additional paid-in capital	Retained earnings	Treasury stock	
		Shares issued	Amount			Shares	Amount
						(Dollars in thousands)	
Balance at December 31, 1978		40,599,305	$4,515	$ 92,484	$ 703,826	(94,033)	$ (4,488)
	Net income				188,608		
	Cash dividends on common stock				(20,516)		
	Purchase of common stock for treasury					(320,400)	(13,633)
	Exercise of stock options	6,466		238		7,353	346
	Other			786			
Balance at December 31, 1979		40,605,771	4,515	93,508	871,918	(407,080)	(17,775)
	Net income				220,893		
	Cash dividends on common stock				(29,731)		
	Purchase of common stock for treasury					(77,362)	(3,376)
	Exercise of stock options	8,797	1	335		8,921	415
	Other			180			
Balance at December 31, 1980		40,614,568	4,516	94,023	1,063,080	(475,521)	(20,736)
	Net income				264,834		
	Cash dividends on common stock				(38,252)		
	Purchase of common stock for treasury					(195,186)	(11,981)
	Exercise of stock options	86,731	9	3,715		195,647	8,860
	Tax benefits from exercise of stock options			2,513			
	Other			86			
Balance at December 31, 1981		40,701,299	$4,525	$100,337	$1,289,662	(475,060)	$ (23,857)

The Financial comments beginning on page 34 are an integral part of the consolidated financial statements.

Summary of significant accounting policies

☐ *Consolidation policy*

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 50% or less owned affiliates, whose operations are not material to the consolidated financial statements, are carried at equity in the companies' net assets.

All significant intercompany transactions are eliminated in consolidation.

☐ *Property and equipment*

The cost of new restaurant property includes interest, real estate taxes and rents incurred through the development period. Depreciation and amortization are provided on the straight line method over the following estimated useful lives: restaurant buildings—principally 25 years; restaurant equipment and signs—principally 10 years; furniture, fixtures and other equipment—3 to 10 years; leasehold improvements—lesser of useful life of assets or term of leases (including option periods); and property under capital leases—term of leases.

☐ *Intangible assets*

Costs allocated to unlimited term franchise rights reacquired prior to November 1970 are not being amortized. All other costs allocated to reacquired franchise rights are being amortized on the straight line method over periods up to 40 years.

☐ *Revenue recognition*

Initial location and license fees are recorded as income when the related restaurant is opened. Expenses associated with site assignment and the issuance of franchise agreements are charged to expense as incurred.

Continuing fees from franchised restaurants are recorded in income on the accrual basis.

Gains on sales of restaurant businesses are recorded as income when the sales are consummated and other stipulated conditions are met.

☐ *Income taxes*

United States income taxes have not been accrued on undistributed earnings of certain foreign subsidiaries and affiliates as the Company considers such earnings to be permanently invested in the businesses. Income tax provisions on such earnings, if distributed, would not be material due to the availability of foreign tax credits.

Investment tax credits are accounted for on the flow-through method as a reduction of income tax provisions.

☐ *Debt issuance cost*

Issuance cost of long-term debt is deferred and amortized over the repayment term.

☐ *Foreign currency translation*

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards Board Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." In December 1981 Statement No. 52, "Foreign Currency Translation," was issued, the provisions of which require implementation no later than 1983. The Company does not expect that the prospective application of this statement will have a material effect on the consolidated financial statements.

Restaurant acquisitions, dispositions and number of restaurants in operation

In transactions with franchisees during the three-year period ended December 31, 1981, the Company acquired restaurant businesses (including related territorial rights) which were accounted for as purchases, and sold restaurant businesses as detailed below:

	1981	1980	1979
		(Dollars in thousands)	
Purchased—			
Number of restaurant businesses	57	38	141
Approximate aggregate purchase price	$25,600	$12,800	$52,400
Number of restaurant businesses sold—			
Through exercise of purchase options in franchise arrangements	79	56	26
That were operated by the Company	18	30	50
	97	86	76

Results of operations of restaurant businesses purchased have been included in the consolidated financial statements since dates of acquisition. The results of operations of purchased and sold restaurant businesses were not material to the consolidated financial statements. Gains on sales of restaurant businesses included in Other revenues—net for the last three years are as follows: 1981—$14,918,000; 1980—$13,188,000; and 1979—$14,638,000.

The table below shows the number of restaurant businesses in operation at the end of each of the last four years:

	1981	1980	1979	1978
Operated by the Company	1,746	1,608	1,547	1,406
Franchised to other operators	4,301	4,028	3,696	3,466
Leased to other operators	279	274	231	107
Operated by 50% or less owned affiliates	413	353	273	206
	6,739	6,263	5,747	5,185

Operators of the restaurants leased to others at December 31, 1981, generally have options to purchase the businesses.

Segment and geographic information

The Company operates in one industry segment. All significant revenues relate to over-the-counter sales of food products to the general public, whether the restaurants involved are operated by the Company, its affiliates or franchisees.

Restaurants are located in the United States and in foreign markets. Of the 6,739 restaurants in operation at December 31, 1981, 1,185 are operating outside of the United States. Of these restaurants, 389 are located in Canada, and the remaining 796 are located in 28 other international markets.

Revenues and operating income for the three years ended December 31, 1981, classified by major geographic areas in which the Company operates, are as follows:

	1981	1980	1979
		(In thousands of dollars)	
Revenues:			
U.S.	$2,004,238	$1,763,656	$1,557,938
Canada	288,432	245,277	219,363
Other International	223,166	206,530	160,634
Total revenues	$2,515,836	$2,215,463	$1,937,935
Operating income:			
U.S.	$ 486,600	$ 417,357	$ 359,520
Canada	54,517	43,139	37,200
Other International	31,834	32,944	20,380
	572,951	493,440	417,100
Interest expense	(91,317)	(90,847)	(72,592)
Income before income taxes	$ 481,634	$ 402,593	$ 344,508

Canada and Other International revenues and operating income include operations of subsidiaries, fees from franchisees and affiliates and the Company's share of operating results of affiliates—all of which are operating outside of the United States—and all foreign currency exchange gains and losses (including those resulting from hedging activities). Included therein are fees received in the U.S. (excluding intercompany fees) in the following amounts: 1981—$12,676,000; 1980—$11,315,000; and 1979—$7,782,000. These fees are included in revenues and operating income of the geographic area from which they are derived. Fees received in the United States which are charged to subsidiaries operating outside of the U.S. are as follows: 1981—$15,557,000; 1980—$13,292,000; and 1979—$11,094,000. All intercompany fees and expenses are eliminated in computing revenues and operating income.

Foreign currency exchange gains (losses), including those resulting from hedging activities, are included in Other revenues—net in the consolidated statement of income, as follows: 1981—$(1,748,000); 1980—$253,000; and 1979—$(2,830,000). Other International revenues and operating income would have been greater in 1981 if foreign currency exchange rates in relation to the U.S. dollar had not changed from 1980's rates.

Identifiable assets applicable to each geographic area at December 31, 1981, 1980 and 1979, respectively, are as follows: United States—$2,263,229,000, $2,112,631,000 and $1,907,710,000; Canada—$242,716,000, $220,815,000 and $207,338,000; and Other International—$393,377,000, $309,923,000 and $238,958,000.

Income taxes

Pretax income and the related provision for income taxes, classified by where the income is generated, consist of the following:

	1981	1980	1979
		(In thousands of dollars)	
Pretax income—			
U.S.	$424,313	$348,792	$304,415
Foreign	57,321	53,801	40,093
	$481,634	$402,593	$344,508
Provision for income taxes—			
U.S.	$195,377	$159,934	$140,198
Foreign	21,423	21,766	15,702
	$216,800	$181,700	$155,900

The foreign provision for income taxes in the preceding table gives effect to taxes paid (credited) in the U.S. on (1) income from fees received in the U.S. which are derived from foreign operations and (2) foreign currency hedging gains and losses, as follows: 1981—$(2,512,000); 1980—$5,271,000; and 1979—$744,000.

The provision for income taxes, classified by the timing and location of payment, consists of the following:

	1981	1980	1979
		(In thousands of dollars)	
Current:			
U.S. federal	$130,722	$113,545	$101,086
U.S. state	20,702	21,596	17,586
Foreign	20,953	14,379	11,603
	172,377	149,520	130,275
Deferred:			
U.S. federal	37,060	26,615	19,073
U.S. state	4,381	3,449	3,197
Foreign	2,982	2,116	3,355
	44,423	32,180	25,625
	$216,800	$181,700	$155,900

The consolidated income tax provision is reconciled in the following table to the tax computed by applying the statutory United States federal income tax rate of 46% to income before income taxes.

	1981	1980	1979
		(In thousands of dollars)	
Tax at statutory rate	$221,552	$185,193	$158,474
State income taxes, net of related federal income tax benefit	13,545	13,524	11,223
Investment tax credits	(16,600)	(16,000)	(15,000)
Other	(1,697)	(1,017)	1,203
Consolidated tax provision	$216,800	$181,700	$155,900

Deferred income taxes, computed on the net change method, include the tax effect of the excess of tax over book depreciation of $28,166,000 in 1981, $23,575,000 in 1980 and $16,983,000 in 1979.

Property and equipment

Property and equipment consists of the following at December 31, 1981 and 1980:

	1981	1980
	(In thousands of dollars)	
Land	$ 598,082	$ 521,218
Buildings and improvements on owned land	1,200,473	1,039,758
Buildings on leased land and leasehold improvements	683,089	600,974
Equipment and signs for restaurants	446,564	387,075
Furniture, fixtures and other equipment	44,594	40,102
Property under capital leases	116,060	117,569
	3,088,862	2,706,696
Less accumulated depreciation and amortization:		
Owned property	539,557	429,734
Property under capital leases	52,662	49,814
	592,219	479,548
Net property and equipment	$2,496,643	$2,227,148

Real estate taxes and rents capitalized for the last three years are as follows: 1981—$1,700,000; 1980—$2,700,000; and 1979—$2,800,000.

Depreciation and amortization expense, including amortization of property under capital leases, for the last three years is as follows: 1981—$133,107,000; 1980—$112,660,000; and 1979—$91,712,000.

For additional information related to property under capital leases, refer to "Lease of properties owned by others."

Intangible assets, net

Set forth below is the composition of intangible assets at December 31, 1981 and 1980:

	1981	1980
	(In thousands of dollars)	
Unlimited term franchise rights, not being amortized	$13,599	$13,599
Other franchise rights	65,593	55,142
Other intangible assets	2,059	1,951
Intangible assets, net	$81,251	$70,692

Debt financing and dividend restrictions

☐ *Short-term lines of credit*

At December 31, 1981, certain of the Company's international subsidiaries have unused bank lines of credit of $36,000,000 available for short-term borrowings, with interest rates (11.75% to 17.25% at December 31, 1981) generally based upon prime rates of local banks.

☐ *Long-term debt and dividend restrictions*

Long-term debt, other than obligations under capital leases, consists of the following at December 31, 1981 and 1980:

	1981	1980
	(In thousands of dollars)	
Mortgage notes, 5.5% to 10.5%	$153,449	$164,238
Revolving credit notes	77,158	125,095
Short-term notes supported by bank credit agreements, 10.4% to 19.5% (16.4% to 20.9% in 1980)	157,271	94,565
Installment notes, 6.75% to 10.25%	137,104	146,704
Promissory notes	110,459	89,555
Sinking fund notes:		
8⅝%, due 1988	42,044	67,601
10¼%, due 1989	50,000	50,000
Serial notes, 9%, due 1985	67,830	67,779
9⅝% notes, due 1982		59,933
Other	49,489	20,244
	$844,804	$885,714

Mortgage notes mature at various dates through 2001. At December 31, 1981, land, buildings and improvements with an aggregate net book value of approximately $318,000,000 were mortgaged under these obligations.

At December 31, 1981, the Company has long-term bank credit agreements aggregating $275,000,000. Credit agreements totaling $175,000,000 continue indefinitely unless terminated by the participating banks upon advance notice of at least 18 months. Notes, to the extent issued under these credit agreements, are repayable upon termination of the agreements and bear interest at the agent bank's prime rate (or base rate plus ½% for Eurodollar or foreign currency borrowings). A credit agreement totaling $100,000,000 terminates March 31, 1983. Notes, if issued under this credit agreement, would bear interest at the agent bank's prime rate (or base rate for Eurodollar borrowings) and be payable on March 31, 1983, unless converted into term notes at that date. If converted, the notes would be payable in eight equal semiannual installments beginning September 30, 1983, and would bear interest at 102% to 104% of the agent bank's prime rate. The credit agreements provide for a commission, generally ½% per annum on the daily unused portion of the total commitment, and permit the Company to reduce the total commitment at any time. At December 31, 1981, amounts outstanding under these credit agreements consist of $77,158,000 denominated in German marks with an interest rate of 12.1% ($75,095,000 at 11.1% at December 31, 1980). Revolving credit notes of $50,000,000 denominated in U.S. dollars were also outstanding at December 31, 1980, with an interest rate of 20.5%. Short-term notes of $157,271,000 at December 31, 1981 are classified with long-term debt as they are supported by these credit agreements and the Company intends to refinance these obligations on a long-term basis. At December 31, 1981, $137,096,000 of these short-term notes have interest rates from 10.4% to 12.7%.

The installment notes mature over various terms through 1998. Notes in the amount of $58,532,000 are subject to an interest rate adjustment of ¾% in 1986 or 1987 at the option of the note holders. In the event of such adjustment, the Company may, in the following year, redeem all or a portion of these notes at face value.

Promissory notes outstanding at December 31, 1981, include $75,459,000 of industrial revenue bonds due from 1990 to 2000 with interest rates ranging from 6% to 11.75% ($39,555,000 at 6% to 9% in 1980). Other notes in the amount of $35,000,000 are due in 1984. Interest rates on these notes range from 10.25% to 10.95%, with an interest rate adjustment to the agent bank's prime rate in 1982, at which time the Company has the option of prepayment.

The 8⅝% sinking fund notes require annual redemptions of $10,000,000. An additional $10,000,000 may be redeemed each year at the option of the Company. The 10¼% sinking fund notes have the same provisions as the 8⅝% notes, except that the mandatory and optional redemptions begin October 1, 1985. During 1981 the Company acquired $25,557,000 of 8⅝% sinking fund notes which may be applied to satisfy future sinking fund requirements.

Under the indentures covering certain of the Company's debt, the Company and its subsidiaries are required to maintain stated ratios of net book value of stipulated real property to the principal amount of the outstanding notes, and of net book value of property and equipment to funded debt. If these and certain other conditions are not met, the Company may be required to deliver first mortgages as security for the debt. The indentures also require, for the preceding 12-month period, minimum earnings coverage of interest and rental expense and a minimum ratio of working capital generated from operations to funded debt at the end of the period.

In connection with the long-term credit agreements, the Company has informally agreed to maintain average compensating balances (not material) which are not restricted as to withdrawal. The credit agreements restrict the payment of cash dividends and the repurchase of capital stock by the Company. Consolidated retained earnings not restricted total $343,911,000 at December 31, 1981.

Aggregate maturities of long-term debt for the five years ending after December 31, 1981, are as follows: 1982—$89,556,000; 1983—$174,906,000; 1984—$89,196,000; 1985—$159,987,000; and 1986—$73,164,000. Although certain of the Company's long-term credit agreements continue indefinitely, $134,429,000 of related notes are included in the 1983 maturities, as 1983 is the earliest time at which the banks can terminate the agreements. Short-term notes totaling $100,000,000 are included in 1983, 1984, 1985 and 1986 maturities in the amounts of $12,500,000, $25,000,000, $25,000,000 and $25,000,000, respectively, with the balance payable thereafter. These maturities assume refinancing of the short-term notes in 1983 and conversion into the term loan available under the $100,000,000 credit agreement.

Lease of properties owned by others

☐ *Description of leasing arrangements*

At December 31, 1981, the Company is lessee under ground leases (the Company leases the land and erects and owns the buildings) and improved leases (lessor owns the land and buildings) covering 2,567 restaurant sites. Lease terms are generally for 20 to 25 years and, in many cases, provide for rent escalations and for one or more five-year renewal options. The Company is generally obligated for the cost of property taxes, insurance and maintenance. Other leases are principally for office space and equipment.

☐ *Capital leases*

The Company is lessee under 1,498 improved leases at December 31, 1981. The building portions of 861 of such leases are capital leases. Future minimum rental payments related to the capitalized portion of improved leases in effect at December 31, 1981, are as follows:

	(In thousands of dollars)
1982	$ 12,772
1983	12,548
1984	12,253
1985	12,005
1986	11,870
Thereafter	114,070
Total minimum payments	175,518
Less imputed interest	90,640
Present value of minimum rental payments	84,878
Less current maturities at December 31, 1981	4,174
Long-term obligations at December 31, 1981	$ 80,704

☐ *Operating leases*

At December 31, 1981, the Company is lessee under noncancellable operating leases with terms in excess of one year covering (1) land related to 1,069 ground leases, (2) land related to 861 improved leases in which the building portion is capitalized, (3) land and buildings related to 637 improved leases in which the building portion is not capitalized, (4) land for additional parking and (5) other property, principally office space and equipment. Future minimum lease payments related to these operating leases at December 31, 1981, are as follows:

	Restaurant	Other	Total
		(In thousands of dollars)	
1982	$ 55,800	$ 11,900	$ 67,700
1983	55,500	10,300	65,800
1984	55,300	8,100	63,400
1985	55,300	5,000	60,300
1986	55,000	2,800	57,800
Thereafter	563,900	20,500	584,400
	$840,800	$ 58,600	$899,400

☐ *Rent expense*

Rent expense as shown in the consolidated statement of income includes percentage rentals based on sales of the related restaurants in excess of minimum rentals stipulated in certain of the capital and operating lease agreements as follows: 1981—$4,293,000; 1980—$3,856,000; and 1979—$3,502,000.

Total rent expense included in the consolidated statement of income amounted to: $72,586,000 in 1981; $63,883,000 in 1980; and $53,216,000 in 1979.

Franchise arrangements

Franchise arrangements generally provide for initial location and license fees and continuing payments to the Company based upon a percentage of sales, with a minimum payment. Among other things the franchisee is provided the use of both land and building, generally for a period of 20 years, and is required to pay property taxes, insurance and maintenance.

As of December 31, 1981, the net book value of assets related to franchised restaurant locations was $1,386,000,000 (including land of $369,000,000) after deducting accumulated depreciation and amortization of $252,000,000.

Revenues from franchised restaurants for the past three years, with minimum payments summarized based upon the Company's real estate interest, consist of:

	1981	1980	1979
		(In thousands of dollars)	
Minimum payments—			
Owned sites	$136,941	$120,270	$100,596
Leased sites	84,324	78,363	68,403
	221,265	198,633	168,999
Percentage payments	335,803	283,550	243,229
Initial location and license fees	4,253	4,394	4,409
	$561,321	$486,577	$416,637

Future minimum payments to the Company after December 31, 1981, are required under franchise arrangements as follows:

	Owned sites	Leased sites	Total
		(In thousands of dollars)	
1982	$ 149,900	$ 93,900	$ 243,800
1983	147,500	92,500	240,000
1984	145,400	91,100	236,500
1985	144,400	90,100	234,500
1986	144,900	89,700	234,600
Thereafter	1,501,500	848,800	2,350,300
	$2,233,600	$1,306,100	$3,539,700

Other commitments and security deposits

The Company has guaranteed the payment of loans relating to certain affiliates and others totaling $53,000,000 at December 31, 1981. In addition, the Company is a general partner in four domestic partnerships having total assets of $53,000,000 and total indebtedness of $40,000,000 at December 31, 1981.

Commitments, certain of which are contingent upon future events, and contractual obligations, principally for the acquisition or construction of property, amounted to approximately $73,000,000 at December 31, 1981.

At December 31, 1981, security deposit refunds to franchisees which will become due for all years through 1986 total $10,700,000. Refunds payable for the individual years 1987 through 2001 range from $1,700,000 to $5,500,000.

Stock options and incentive plan

The Company has adopted stock option plans which authorize the grant of options to purchase common stock to officers and employees at prices not less than the fair market value of the stock at dates of grant. Options may be granted through 1985, but that date may be extended by the Board of Directors.

The options become exercisable cumulatively in five equal biennial installments commencing one year from date of grant and expire ten years from the date of grant. The Option Committee has the authority to cancel outstanding options with the consent of the optionee and to grant new options in substitution thereof.

Option information for the three-year period ended December 31, 1981 follows:

	1981		1980		1979	
	Option price per share	Number of shares	Option price per share	Number of shares	Option price per share	Number of shares
At December 31:						
Options outstanding	$42 to 61	2,700,148	$42 to 51	2,345,075	$42 to 54	2,176,680
Options exercisable	42 to 51	617,391	42 to 51	763,934	42 to 54	480,425
Shares reserved for future grants		54,118		101,648		312,074
Option activity during the year:						
Granted	61	737,855	46	327,655	49	772,045
Forfeited	42 to 61	100,404	42 to 54	141,542	42 to 54	91,800
Exercised	42 to 51	282,378	42 to 46	17,718	42 to 46	13,819

At December 31, 1981, a maximum of 2,754,266 shares of common stock are reserved for issuance under stock option plans.

The Company adopted an incentive plan in 1978 whereby performance units and stock appreciation rights can be granted to recipients of stock options. The values of such performance units and stock appreciation rights are dependent upon the Company's operating results and the market value of stock, respectively, with stipulated maximum amounts. Generally, the performance units and stock appreciation rights are exercisable when the related stock options become exercisable. Exercise of any one of the above option, unit or right benefits terminates any corresponding benefits. Amounts charged to costs and expenses related to the incentive plan are not material.

Preferred stock

Series preferred stock authorized for issuance totals 300,000 shares. No shares were issued or outstanding from January 1, 1979, to December 31, 1981.

Net income per share

The weighted average shares used in the calculation of net income per share are as follows: 40,488,715 in 1981; 40,230,501 in 1980; and 40,295,394 in 1979. The effect of dilutive securities is not material.

Quarterly results (unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31,1981 and 1980:

		Quarters ended December 31		September 30		June 30		March 31	
		1981	1980	1981	1980	1981	1980	1981	1980
		(In thousands of dollars, except per share amounts)							
Revenues	Sales by Company-owned restaurants	$481,843	$437,246	$508,427	$450,303	$492,922	$430,981	$432,716	$379,237
	Revenues from franchised restaurants	141,975	128,090	150,127	131,855	143,937	122,392	125,282	104,240
	Other revenues—net	11,795	4,697	9,506	6,978	13,173	9,515	4,133	9,929
	Total revenues	635,613	570,033	668,060	589,136	650,032	562,888	562,131	493,406
Costs and expenses	Company-owned restaurants	408,491	367,735	419,083	374,024	401,995	352,349	359,710	322,912
	Expenses directly applicable to revenues from franchised restaurants	22,389	20,206	21,295	19,105	20,975	18,036	20,624	16,954
	General, administrative and selling expenses	72,560	62,498	67,737	58,188	65,407	56,387	62,619	53,629
	Interest expense	22,781	24,516	22,354	21,750	22,540	22,555	23,642	22,026
	Total costs and expenses	526,221	474,955	530,469	473,067	510,917	449,327	466,595	415,521
Income before provision for income taxes		109,392	95,078	137,591	116,069	139,115	113,561	95,536	77,885
Provision for income taxes		48,183	42,703	61,770	52,176	62,900	51,578	43,947	35,243
Net income		$ 61,209	$ 52,375	$ 75,821	$ 63,893	$ 76,215	$ 61,983	$ 51,589	$ 42,642
Net income per share of common stock		$ 1.52	$ 1.30	$ 1.87	$ 1.59	$ 1.88	$ 1.54	$ 1.28	$ 1.06

Auditors' Report

The Board of Directors and Stockholders
McDonald's Corporation

We have examined the accompanying consolidated balance sheet of McDonald's Corporation and subsidiaries at December 31, 1981 and 1980 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of McDonald's Corporation and subsidiaries at December 31, 1981 and 1980 and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
February 1, 1982

Information on the effects of changing prices—inflation (unaudited)

Basis of presentation

The Financial Accounting Standards Board (FASB) has adopted experimental disclosure rules requiring the inclusion of supplemental information in annual reports of large publicly owned companies. The FASB Statement intends that these disclosures will provide information useful in assessing the more significant effects of inflation on a business enterprise.

The following condensed financial statements compare the traditional historical cost-based financial statements for 1981 with financial statements comprehensively adjusted under two methods: constant dollar, which gives effect to general inflation; and current cost, which gives effect to changes in prices of specific goods and services utilized by the Company.

The FASB Statement requires, under constant dollar adjustment, that the effect of changes in the purchasing power of the dollar (general inflation) be measured by the Consumer Price Index for all Urban Consumers (CPI-U), which is issued by the U.S. Department of Labor. The constant dollar financial statements presented herein are adjusted using the CPI-U index as of December 31, 1981 (constant dollars at December 31, 1981).

The current cost adjusted financial information is also expressed in year-end 1981 constant dollars and gives effect to the changing prices of the specific assets used by the Company in its business, which prices may change at rates different from general inflation. The adjusted data reflects the current cost of actual assets owned (reproduction cost), not the cost that would be incurred to replace existing assets (replacement cost).

These current costs were determined by applying specific price indices for the major components of property, equipment and intangible assets to the applicable historical costs. The land indices were generally developed internally, using actual prices paid by the Company in each year for comparable sites in various geographic areas. For buildings, applicable external indices for each country have generally been used, the integrity of which has been tested internally by accumulating costs related to comparable buildings. The equipment and intangible asset indices were also developed internally based upon actual cost experience. For countries outside the U.S., current costs were determined on a local currency basis and translated at current exchange rates. Although the indices used for these computations appear to be compatible with the changing costs experienced by the Company, the final results could differ significantly from costs that will be incurred in the future.

Depreciation and amortization expense, as adjusted, reflects the same methods and estimated lives used in the historical financial statements. Depreciation and amortization of property, equipment and intangibles included in the adjusted financial data for 1981 is $137,834,000 on a historical cost basis, $205,441,000 on a constant dollar basis and $189,778,000 on a current cost basis.

For 1981 all monetary balance sheet items are stated at the same amounts as in the historical financial statements. Inventories on both a constant dollar and a current cost basis approximate historical amounts. Other nonmonetary assets and stockholders' equity are stated in year-end 1981 dollars or current cost expressed in year-end 1981 dollars. All revenues and expenses, except depreciation and amortization and other amounts related to nonmonetary items, are adjusted from average to year-end 1981 dollars. The provision for income taxes is also adjusted from average to year-end 1981 dollars. Income taxes have not been adjusted for increased depreciation and amortization expense on either a constant dollar or a current cost basis, as the current tax regulations do not permit a deduction for this increase.

Commentary

The Company believes it has generally dealt effectively with inflationary pressures and rising prices. While the accompanying constant dollar and current cost data is intended to provide information about the more significant effects of inflation on the Company, we believe that there may be limitations as to its meaningfulness in this regard because of the Company's asset composition, its financing activities, and the nature of its operations relative to other companies and the differing effects of inflation on businesses. The following comments are provided to assist in the analysis of the data.

Sales by Company-owned restaurants and Revenues from franchised restaurants principally relate to over-the-counter sales of food products to the public. Menu prices have generally been adjusted to compensate for cost increases. The increases in the Company's systemwide sales for the last five years, as stated in year-end 1981 dollars, better reflect the growth of the Company's operations than do the increases in total revenues for the same period because of the lower percentage growth in the number of Company-owned restaurants as compared to franchised restaurants.

In determining constant dollar and current cost income, the FASB Statement requires that depreciation expense be adjusted for changing prices. For the current year, depreciation and amortization expense is increased by $67,607,000 on a constant dollar basis and $51,944,000 on a current cost basis from the historical cost amount. The effect of inflation on property and equipment is inseparable from its effect on the debt used to finance such assets. The purchasing power gain on the debt is an economic benefit to the Company since, with inflation, the debt is paid back in cheaper dollars. Accordingly, we believe that this gain should be viewed as an adjustment to interest and therefore have included it in arriving at constant dollar net income.

Substantially all existing restaurants conform to the Company's current designs and specifications, and restaurant equipment improvements are made on a continuing basis. Because the related property and equipment expenditures have largely been made in recent years and include substantial amounts for land, the increase in depreciation and amortization for both constant dollar and current cost purposes is not as large as might be expected. At year-end 1981 the Company's investment in property and equipment increases from historical cost amounts by $1.2 billion for constant dollar purposes and by $.9 billion on a current cost basis with corresponding increases in Stockholders' equity.

One objective of the FASB Statement is to permit assessment of a company's ability to replace productive assets which will likely cost more in future years. In making this assessment as it relates to McDonald's, consideration must be given to franchise arrangements covering the majority of restaurants whereby the franchisees repair and maintain restaurant buildings which are included in Property and equipment in the accompanying Condensed consolidated balance sheet. Franchisees also spend substantial amounts improving and remodeling the restaurant buildings. In addition, consideration must be given to the fact that land, which represents 24% of the historical cost of property and equipment, is not likely to require significant replacement. Furthermore, during 1980 the Company introduced a new free-standing restaurant building design, the Series 80 building, which is slightly smaller and more standardized and results in lower construction costs than previous free-standing designs. The amounts shown for property and equipment in the Company's constant dollar and current cost balance sheet have not been adjusted to reflect this lower cost and therefore should not be considered indicative of the level of future expenditures which the Company will be required to make to maintain the earning power of its productive assets.

The specific price increases for the Company's productive assets were significantly less than general inflation during 1979 and 1980, due primarily to the unusually large increase in the CPI-U, which was not reflective of the actual increases in property costs incurred by the Company during those years.

In summary, the Company feels that its rapid inventory turnover, its menu price adjustments, its substantial property holdings, which are partially financed by debt repayable in cheaper dollars in inflationary times, and its effectiveness in controlling property and equipment costs, have helped to cushion against inflation. Furthermore, as a result of the property holdings, Stockholders' equity per share at December 31, 1981 on a current cost basis is $58.07 and on a constant dollar basis is $65.28, compared to $34.07 on a historical cost basis. However, it should be emphasized that the constant dollar and current cost amounts, which have not been adjusted for any future income tax effects, are based upon procedures prescribed by the FASB Statement and are not based upon appraisal or other traditional methods of valuation.

Condensed consolidated balance sheet *(In thousands of dollars)*

		December 31, 1981		
			Year-end 1981 dollars	
		Historical cost as reported	Constant dollars	Current cost
Assets	Current assets	$ 176,154	$ 176,892	$ 176,574
	Other assets and deferred charges	145,274	190,927	182,621
	Property and equipment, at cost	3,088,862	4,729,311	4,368,011
	Less accumulated depreciation and amortization	592,219	1,067,887	985,328
	Net property and equipment	2,496,643	3,661,424	3,382,683
	Intangible assets, net	81,251	125,457	122,655
	Total assets	$2,899,322	$4,154,700	$3,864,533
Liabilities and stockholders' equity	Current liabilities	$ 352,911	$ 352,911	$ 352,911
	Long-term debt	925,508	925,508	925,508
	Security deposits by franchisees	63,139	63,139	63,139
	Deferred income taxes	187,097	187,097	187,097
	Stockholders' equity	1,370,667	2,626,045	2,335,878
	Total liabilities and stockholders' equity	$2,899,322	$4,154,700	$3,864,533

Condensed consolidated statement of income *(In thousands of dollars, except per share data)*

		Year ended December 31, 1981		
			Year-end 1981 dollars	
		Historical cost as reported	Constant dollars	Current cost
Revenues	Sales by Company-owned restaurants	$1,915,908	$1,979,913	$1,979,913
	Revenues from franchised restaurants	561,321	580,073	580,073
	Other revenues—net	38,607	31,261	34,949
	Total revenues	2,515,836	2,591,247	2,594,935
Costs and expenses	Company-owned restaurants	1,589,279	1,678,156	1,667,808
	Expenses directly applicable to revenues from franchised restaurants	85,283	115,126	110,195
	General, administrative and selling expenses	268,323	280,373	279,410
	Interest expense	91,317	94,368	94,368
	Total costs and expenses	2,034,202	2,168,023	2,151,781
Income before provision for income taxes		481,634	423,224	443,154
Provision for income taxes		216,800	224,043	224,043
Income before holding gain		264,834	199,181	$ 219,111
Purchasing power gain on net amounts owed—holding gain			113,022	$ 113,022
Net income		$ 264,834	$ 312,203	
Per share	Income before holding gain	$ 6.54	$ 4.92	$ 5.41
	Purchasing power gain on net amounts owed—holding gain		2.79	$ 2.79
	Net income	$ 6.54	$ 7.71	

Condensed consolidated statement of stockholders' equity *(In thousands of dollars)*

		Historical cost as reported	Constant dollars	Current cost
Balance at December 31, 1980, historical cost		$1,140,883	$1,140,883	$1,140,883
Cumulative adjustment to year-end 1980 dollars to reflect changing prices			1,013,982	774,687
Balance at December 31, 1980 in year-end 1980 dollars			2,154,865	1,915,570
Adjustment of December 31, 1980 balance to reflect general inflation in 1981			192,637	171,244
Balance at December 31, 1980 in year-end 1981 dollars			2,347,502	2,086,814
1981 activity:	Income before holding gain	264,834	199,181	219,111
	Purchasing power gain on net amounts owed—holding gain		113,022	113,022
	Property and equipment— Increase in current cost			243,109
	Less effect of increase in general prices			268,476
	Excess of increase in general prices over increase in current cost of property and equipment			(25,367)
	Cash dividends	(38,252)	(39,530)	(39,530)
	Other	3,202	5,870	(18,172)
Balance at December 31, 1981		$1,370,667	$2,626,045	$2,335,878

Selected additional financial data in year-end 1981 dollars *(In thousands of dollars, except per share data)*

		1981	1980	1979	1978	1977
Year ended December 31	Systemwide sales	$7,367,000	$7,102,000	$6,973,000	$6,591,000	$5,798,000
	Total revenues	$2,591,247	$2,520,673	$2,502,983	$2,408,584	$2,180,885
	Income before holding gain Constant dollars	$ 199,181	$ 191,909	$ 193,495		
	Current cost	$ 219,111	$ 206,930	$ 203,767		
	Purchasing power gain on net amounts owed—holding gain	$ 113,022	$ 158,791	$ 163,773		
	Increase in current cost of property and equipment	$ 243,109	$ 219,443	$ 230,384		
	Excess of increase in general prices over increase in current cost of property and equipment	$ 25,367	$ 127,243	$ 112,485		
	Income before holding gain per share Constant dollars	$ 4.92	$ 4.77	$ 4.80		
	Current cost	$ 5.41	$ 5.14	$ 5.05		
	Holding gain per share	$ 2.79	$ 3.94	$ 4.06		
	Cash dividends per share	$ .98	$ .84	$ .66	$ .47	$ .23
At December 31	Stockholders' equity Constant dollars	$2,626,045	$2,347,502	$2,039,355		
	Current cost	$2,335,878	$2,086,814	$1,875,481		
	Stockholders' equity per share Constant dollars	$ 65.28	$ 58.49	$ 50.73		
	Current cost	$ 58.07	$ 51.99	$ 46.66		
	Market price per share	$ 65.38	$ 53.11	$ 53.12	$ 66.61	$ 77.90
	Consumer price index	281.5	258.4	229.9	202.9	186.1

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Edward H. Schmitt, Allen P. Stults, David B. Wallerstein

Richard J. Boylan, Robert N. Thurston

Jack M. Greenberg, Gerald Newman

Donald P. Horwitz, Donald G. Lubin

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Founder, Senior Chairman of the Board

Richard J. Boylan
Senior Executive Vice President

Jack M. Greenberg
Executive Vice President, Chief Financial Officer

Donald P. Horwitz
Executive Vice President, Secretary

Donald G. Lubin
Partner, Sonnenschein Carlin Nath & Rosenthal, Chicago

Gerald Newman
Senior Executive Vice President, Chief Accounting Officer

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President, Chief Administrative Officer

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Honorary Chairman of the Board, American National Bank and Trust Company of Chicago

Robert N. Thurston
Executive Vice President, The Quaker Oats Company, Chicago

Fred L. Turner
Chairman of the Board, Chief Executive Officer

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Patrick W. Kahler
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Cincinnati, Ohio
Cleveland, Ohio
Columbus, Ohio
Dallas, Texas
Dayton, Ohio
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Detroit, Michigan
Ft. Lauderdale, Florida
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Honolulu, Hawaii
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Indianapolis, Indiana
Johnson City, Tennessee
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Milwaukee, Wisconsin
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Winnipeg, Manitoba, Canada

Corporate Headquarters

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The Royal Trust Company, Royal Trust Tower
Toronto Dominion Center
Toronto, Ontario, Canada

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Toronto, Ontario, Canada

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no charge. Direct your written requests to:

Chief Financial Officer
McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521

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